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Insurance Practice

Global Insurance Report 2025: The pursuit of growth

November 2024

Global Insurance Report 2025: The pursuit of growth

Finding profitable growth is an imperative for the world's personal and commercial property and casualty insurers, while life carriers must adjust to changing consumer needs.

For an industry focused on mitigating risk and providing protection, the world's insurers are enduring a particularly volatile age. The macroeconomic picture is mixed, with inflation stubbornly high and interest rates uncertain. Consumer confidence remains shaky, even though the economic growth cycle appears to have bottomed out. Geopolitical instability remains a perceived threat to global growth, and trade patterns are shifting amid signs of protectionism.

Yet McKinsey's Global Insurance Report 2025—published in three chapters covering personal lines P&C, commercial P&C, and life—finds significant ground for optimism. In offering granular insights and clear recommendations for how leading insurers can drive performance, the reports identify opportunities for capturing profitable growth as they navigate this shifting landscape.

Personal P&C: Opportunities amid challenges

While personal lines (P&C) insurance premiums grew by 9.5 percent in 2022–23 to $1.1 trillion—outpacing nominal global GDP by half a percentage point[1]—gross written premiums as a share of nominal GDP remained below prepandemic levels and the coverage gap between mature and emerging economies widened. Industry growth in developed markets was largely driven by rate increases, indicating limited expansion into new risks, while insurance affordability emerged as a significant topic in some markets including the United States because of rising underlying asset prices, the cost of repairs and frequency of damage (especially in areas exposed to physical risk), and rising reinsurance costs.

Amid these challenges, we see a chance for carriers to innovate, expand coverage, and increase the industry's relevance. Several economies in Latin America and Asia are potential pockets of growth and may enter economic conditions that will enable greater insurance coverage and relevance. The aging global population and evolving customer purchasing patterns present opportunities for carriers to rethink their capabilities and offerings. Distribution is getting closer to the customer as players embed the purchase of insurance into broader purchases of goods and services. New mobility models will force carriers to rethink their approach to distribution, pricing, product design, and claims processing. Amid the continued rise of physical risk, carriers will need to invest in new capabilities to help manage, mitigate, and transfer the risk related to natural disasters. Last, evolving technology—particularly AI and generative AI—will enable carriers to rethink and innovate the end-to-end value chain.

[1] Global 2023 GDP and premiums were calculated assuming fixed 2022 exchange rates (to convert GDP and premiums from local currencies to US dollars) for the purposes of measuring increases in insurance relevance without any effects from exchange rate fluctuations; we do this for both local insurance premiums and GDP because we are interested in the local share of premiums relative to GPD, which is not affected by currency fluctuations.

Commercial P&C: Finding growth beyond rate increases

Global commercial P&C insurance lines continued to deliver strong growth despite more recent evidence of softening conditions. Premiums increased by an average of 8 percent annually in the past five years, while the average combined ratio for the industry trended downward to an estimated 91 percent in 2023.[2] Almost all of this growth was driven by higher premiums, and insurers must now focus on how they capture consistent, *profitable* growth amid the shifting market landscape.

Although *where* insurers operate is important, the majority of their financial performance is driven by *how* they operate. This dynamic applies across both soft- and hard-cycle years and applies generally, although factors such as regional differences may lead to exceptions.[3] While effective portfolio strategy should not be disregarded, execution matters even more, and insurers should double down on their capabilities in their core lines of business to achieve profitable growth.

Life: Embracing a changing landscape

It has been a year of unpredictable mixed signals, uncertainty, and surprising upsides for the life and retirement insurance industry. While unexpectedly resilient macroeconomic conditions provided tailwinds—global GDP growing in real terms,[4] inflation steadily decreasing,[5] and equity markets turning positive[6]—not all product lines and geographies benefited. And while there were bright spots, the industry overall is struggling for relevance.

Yet there are significant opportunities amid the challenges. The life insurance market is being reshaped by the aging global "silver" population of people aged 65 or older and the concentration of wealth among Generation X[7] and retirees. And while changing social norms and ways of living—such as fewer marriages, lower fertility rates, and more dual-income households—are challenging the traditional life insurance model, it presents an opportunity for more flexible policies catering to nontraditional family structures.

2 Global Insurance Database, AM Best, June 2024; McKinsey Global Insurance Pools, Markets database.
3 Analysis calculates an artificially weighted combined ratio for 24 global commercial lines insurers based on industry business line weights. It uses an industry-weighted business line mix while maintaining each insurer's combined ratio performance in individual business lines. The relative outperformance or underperformance of these artificially weighted combined ratios is then compared to that of the realized combined ratios. This comparison is used to assess the impact of the "how" versus "where" to play decision. Based on Pro Database, S&P Capital IQ, May 2024; Global Insurance Database, June 2024; company annual reports.
4 *World economic outlook*, International Monetary Fund (IMF), April 2024.
5 Ibid.
6 MSCI World Index, MSCI, accessed October 2024.
7 Generation X is defined as people born from the early 1960s to 1980.

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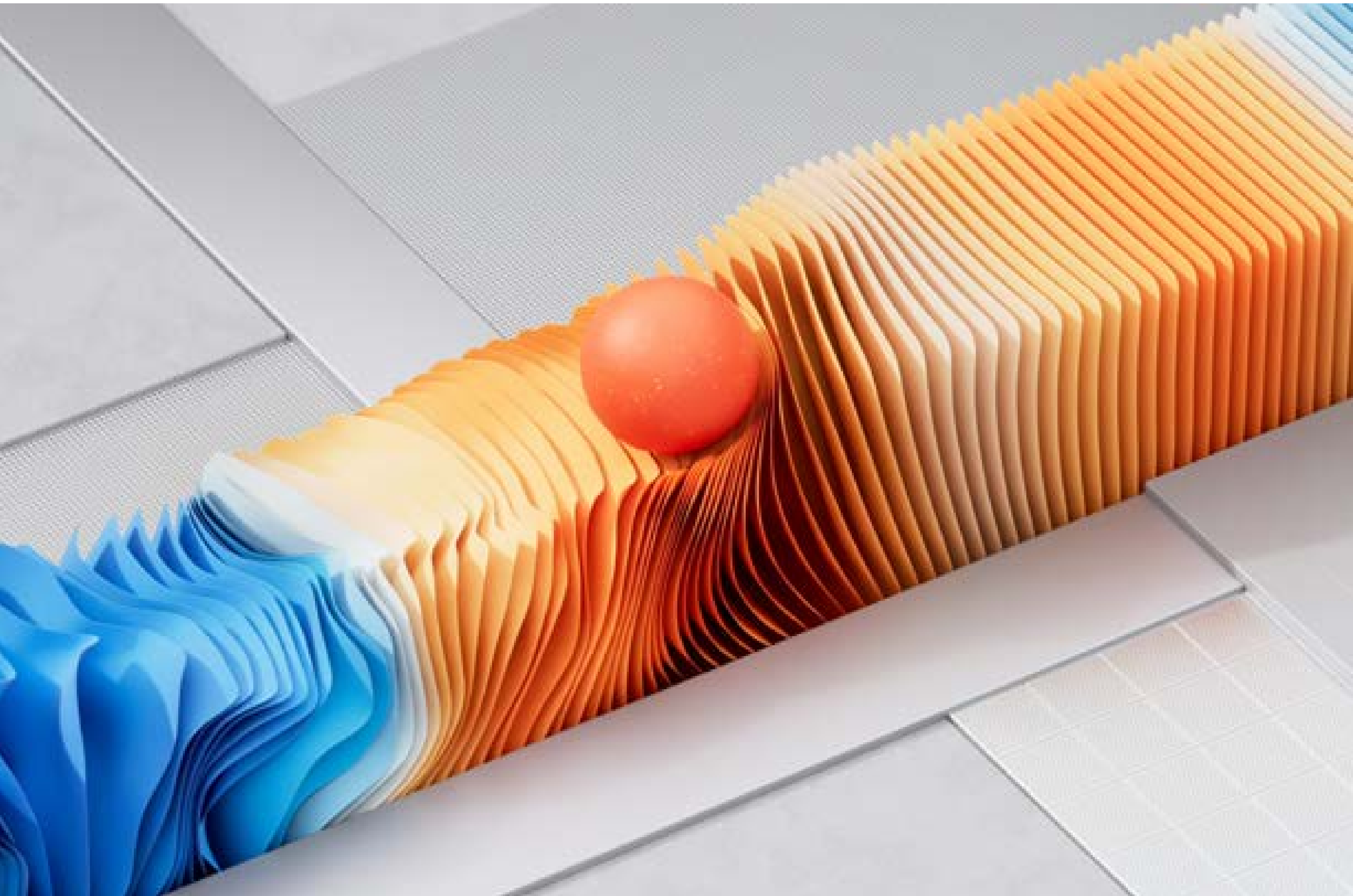
Global Insurance Report 2025: Finding profitable personal lines growth

The personal property and casualty insurance industry grew in 2023, fueled by rate increases. The opportunity now is to innovate, expand coverage, and increase the industry's relevance.

This report is a collaborative effort by Alex Kimura, Deniz Cultu, Elixabete Larrea Tamayo, Grier Tumas Dienstag, and José Miguel Novo Sánchez, with Bernat Serra Montolí, Francesco Martini, and Sebastian Kohls, representing views from McKinsey's Insurance Practice.



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Introduction

The personal lines property and casualty (P&C) industry writes about a quarter of the world's insurance premiums. It protects people and their loved ones wherever they are, every day. Yet that means the disruption consumers have faced globally in recent years—from a global pandemic to rising costs, the increasing frequency and severity of natural disasters, and the changing nature of how we live and work—is also shared by the industry. And that presents both challenges and opportunities.

While the growth of personal lines (P&C) insurance accelerated in 2023, the industry's relevance—measured by gross written premiums as a share of nominal GDP—remained below prepandemic levels, and the coverage gap between mature and emerging economies widened. Industry growth in developed markets was driven largely driven by rate increases, indicating limited expansion into new risks. Additionally, insurance affordability has become a significantly relevant topic: the rising cost of home coverage outpaced income growth in select regions, including the United States. That is a function of underlying asset prices rising, increasing total insurable value; the cost of repairs and frequency of damage rising, especially in areas exposed to physical risk; and rising reinsurance costs. Because many regions are exposed to the same underlying drivers, rising premiums could expand to other regions.

However, these challenges also represent a chance for carriers to innovate, expand coverage, and increase the industry's relevance. We are positive about the industry's outlook as it pivots toward sustained, profitable growth. We see recent profitability challenges easing as inflation stabilizes and carriers in many regions reach rate adequacy, while net investment income continue to rise, supported by higher interest rates.

That is not to suggest the big trends disrupting the industry will disappear; they may even intensify. Mobility trends—from electric vehicles to the promise of autonomous vehicles (AVs)—are changing auto insurance and have the potential to disrupt the sector. Natural disasters are more frequent, severe, and volatile, and risks associated with them may expand the gap between what is protected and what is not. At the same time, several economies in Latin America and Asia are potential pockets of growth because their macroeconomic indicators are at (or are approaching) the point where insurance coverage can leapfrog, given the right tailwinds. The aging global population and evolving customer purchasing patterns present opportunities for carriers to rethink their capabilities and offerings, while evolving technology—particularly AI and generative AI (gen AI)—and distribution can be used to further spur innovation.

1 The personal lines P&C industry opportunity

Personal P&C insurance represented about $1.1 trillion in gross written premiums in 2023, about a quarter of the insurance industry's total premiums.[1] Premium growth of 9.5 percent in 2022–23 outpaced nominal global GDP by half a percentage point,[2] marking a reversal from the period from 2019 to 2022, when premiums grew by 3.2 percent per year and lagged behind GDP by 13 percentage points over three years. This expansion was mainly driven by carriers pushing for rate adequacy after high inflation and accelerated loss trends between 2021 and 2023.

Yet, even with growth in 2023, the relevance[3] of personal lines has not yet returned to prepandemic levels: personal lines represented 1.0 percent of global GDP, compared with 1.2 percent in 2019. In addition, auto and home insurance accounted for more than 93 percent of premium growth in 2023 (compared with 88 percent in the period from 2019 to 2022), highlighting limited expansion into new risks. Simultaneously, the gap between mature and emerging economies has widened. While in mature markets personal lines premiums remained at 1.5 percent of GDP between 2019 and 2023, in emerging economies, that same share fell from 0.7 percent in 2019 to 0.5 percent in 2023, suggesting a widening gap in risk coverage.

Rising relevance in both mature and emerging markets represents an opportunity for carriers as they pivot to focus on profitable growth. We are positive about the industry's outlook: premiums in the United States, for example, are expected to grow by 11 percent annually through 2025 as combined ratios decrease by more than eight percentage points.[4]

Even with growth in 2023, the relevance of personal lines has not yet returned to prepandemic levels: personal lines represented 1.0 percent of global GDP, compared with 1.2 percent in 2019.

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1 Excluding health.
2 Global 2023 GDP and premiums were calculated assuming fixed 2022 exchange rates (to convert GDP and premiums from local currencies to US dollars) for the purposes of measuring increases in insurance relevance without any effects from exchange rate fluctuations; we do this for both local insurance premiums and GDP because we are interested in the local share of premiums relative to GDP, which is not affected by currency fluctuations.
3 As measured by gross written premiums as a share of nominal GDP.
4 *Total industry forecast 2024 Q2*, Conning, 2024.

Growth has been fueled by rate increases, with limited expansion into new risks

North America, the world's biggest personal lines market, experienced the most growth in 2023, expanding by 14 percent and outpacing nominal GDP growth by about eight percentage points. Premium growth was largely driven by rate increases (for example, rates in the US auto market jumped 16 percent compared to premium growth of 11 percent), reflecting carriers' attempts to restore premium adequacy after several years of challenged profitability due to increased claims costs. This indicates that covered exposures likely contracted.

Rate increases also drove premium growth in other mature markets such as developed Asia and Western Europe.[5] Examples include the growth of auto and home rates by 25 and 13 percent, respectively, in the United Kingdom; by 5 and 15 percent, respectively, in Italy; and by nearly 13 percent for both in Australia. Thus, consistent with North America, many other mature markets did not expand coverage to new customers or new risks.

In emerging economies across Asia, Eastern Europe, Latin America, and the Middle East and Africa, personal lines market growth in the 2022–23 period lagged behind GDP by five percentage points, and average 2023 relevance remained below 0.5 percent of GDP—just a third of the 1.5 percent in developed economies. Some markets experienced growth in relevance, though: premiums in Malaysia, South Africa, and Thailand outpaced GDP growth by more than two percentage points. Similarly, in Mexico and Chile, for example, auto premiums grew faster than rates by more than 12 percentage points in 2023.

Finally, growth in product lines diverged. In mature markets, growth was primarily fueled by auto and home. Yet accident and liabilities grew faster than auto and home in some regions, such as accident in Latin America and liabilities in emerging Asia (Exhibit 1).

In emerging economies across Asia, Eastern Europe, Latin America, and the Middle East and Africa, personal lines market growth in the 2022–23 period lagged behind GDP by five percentage points.

[5] Throughout this report, North America consists of Canada and the United States; developed Asia consists of Australia, Hong Kong SAR, Japan, New Zealand, Singapore, South Korea, and Taiwan China; Western Europe consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom; Latin America consists of Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Trinidad and Tobago; the Middle East and Africa consists of Bahrain, Egypt, Iran, Jordan, Kenya, Morocco, Nigeria, Saudi Arabia, South Africa, Tunisia, Türkiye, and the United Arab Emirates; Eastern Europe consists of Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine; and emerging Asia consists of China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Exhibit 1

Personal lines growth accelerated in 2023, yet the coverage gap between mature and emerging economies has widened.

Global revenues by personal property and casualty (P&C) insurance product and region,[1] gross direct domestic premiums written (GDDPW), $ billion[2]

Difference between 2022–23 growth in premiums and GDP in percentage points (p.p.) — 2023 GDDPW — X.X% Relevance rate (GDDPW as a share of nominal GDP, 2023)

Premium growth vs GDP

<0 p.p. | Between 0 and 1 p.p. | Between 1 and 7 p.p. | >7 p.p.

Total market	Mature: North America[3]	Mature: Western Europe	Mature: Developed Asia	Emerging: Emerging Asia	Emerging: Latin America	Emerging: Middle East and Africa	Emerging: Eastern Europe	Total
Motor	344 / 8.1	116 / –1.2	63 / –0.7	124 / 0.3	17 / –15.1	19 / –9.9	23 / –2.7	709 / 1.0
Fire and property	167 / 7.0	65 / 1.2	19 / –2.6	3 / –0.3	5 / –16.5	6 / –5.6	5 / 4.2	271 / 1.8
Liability	n/a / n/a	6 / –1.4	2 / –1.7	0 / 3.3	1 / –13.4	0 / –27.5	1 / 2.5	10 / –3.8
Accident	3 / –0.7	25 / –2.1	37 / –0.9	8 / 2.7	2 / –6.3	3 / –11.3	3 / –16.2	81 / –4.2
Other P&C	n/a / n/a	31 / –1.2	10 / –0.8	3 / 2.6	1 / –11.5	1 / –33.9	2 / 7.4	48 / –4.1
Total	514 / 7.7	243 / –0.7	130 / –1.1	139 / 0.5	26 / –14.6	34 / –10.8	31 / –2.6	1,118 / 0.5
	1.7%	1.2%	1.3%	0.5%	0.4%	0.3%	0.7%	1.0%

Note: Figures may not sum to totals, because of rounding.
[1]North America: Canada and US; Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and UK; emerging Asia: China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam; developed Asia: Australia, Hong Kong SAR, Japan, New Zealand, Singapore, South Korea, and Taiwan China; Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Trinidad and Tobago; Middle East and Africa: Bahrain, Egypt, Iran, Jordan, Kenya, Morocco, Nigeria, South Africa, Tunisia, Türkiye, Saudi Arabia, and UAE; Eastern Europe: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine.
[2]Global 2023 GDP and premiums were calculated assuming fixed 2022 exchange rates (to convert GDP and premiums from local currencies to US dollars) for the purposes of measuring insurance relevance, without any effects from exchange rate fluctuations; we do this for both local insurance premiums and GDP because we are interested in the local share of premiums relative to GDP, which is not affected by currency fluctuations.
[3]North American liability and other P&C are classified as commercial lines.
Source: Oxford Economics; McKinsey Global Insurance Pools; McKinsey Value Intelligence Platform

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Industry profitability should stabilize, shifting the focus to profitable growth

Combined ratios deteriorated for most of the industry in the 2022–23 period due to inflation coupled with delays in achieving rate adequacy.[6] Nonetheless, combined ratios in 2024 are recovering as inflation normalizes and rate increases take hold, pivoting the industry toward profitable, sustainable growth.

Profitability challenges were acute across markets as inflation increased. Net combined ratios grew between 2021 and 2023, most notably in the United Kingdom (where combined ratios[7] and inflation increased by 16 percentage points and 17 percent, respectively), the United States (five percentage points and 12 percent, respectively), and Australia (three percentage points and 13 percent, respectively).

With inflation slowing through 2023, profitability has shown a more promising trajectory. The average loss ratio in the United States in the first half of 2024 was 11 percentage points lower than in the comparable period a year earlier. Capital markets appear to expect this improvement to sustain, as suggested by personal lines' stock prices outperforming the broader S&P 500 in the first half of 2024.[8]

Insurance affordability: Rising coverage costs may become more widespread

While insurance cost in many markets have been stable for the past four years when measured by average premium per policy relative to disposable household income (Exhibit 2), headline rate increases have made insurance feel more expensive for many consumers—especially in the context of price increases for other essentials. And, in some markets, the perception that insurance costs have increased faster than incomes reflects reality: the cost of US home insurance grew from 1.0 percent of household income in 2019 to 1.2 percent in 2023, for example, while a 0.1-percentage-point increase also occurred in Australia home insurance.

Three related effects are driving up the cost of coverage in these markets:

— *Underlying asset prices have risen and increased total insurable value.* Median home prices in the United States have increased by 35 percent since 2019, for example, driving up total insurable value while household incomes remained relatively flat. Similarly, housing prices in Australia have increased 35 percent since 2019.[9]

— *Cost of repairs and frequency of damage have risen especially fast in areas increasingly exposed to physical risk.* In Florida and California, for example, average home premiums per policy have increased by more than 31 percent since 2019, compared with a 17 percent increase across the United States. Correlatedly, these states experienced significant increases in physical risk, driven by natural disasters (more details in the following section).

— *Reinsurance costs have risen and terms and conditions have become stricter, making insuring risk more costly for carriers.* This is exemplified by the 100 percent increase in US home reinsurance prices between 2018 and 2023, making it more expensive for carriers to offer coverage.

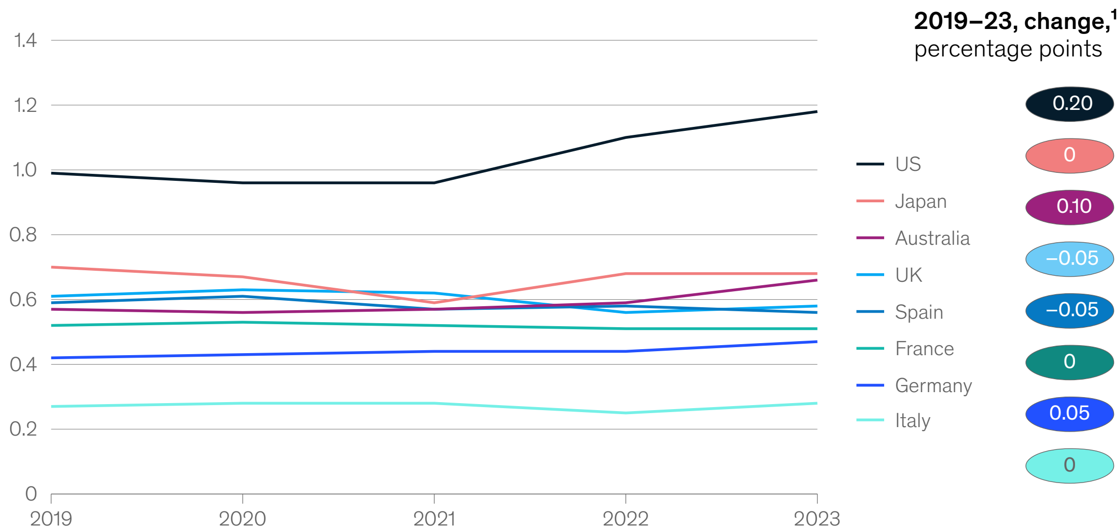
While we expect asset prices (and total insurable value) to normalize relative to income, climate change and resulting increases in physical risk will continue to pressure affordability in select markets. This has the potential to expand to other regions. The challenge for the industry is to find ways to continue offering affordable insurance.

6 Assumes combined ratios behave similarly across personal and commercial lines in select markets where combined ratios specific to personal lines are not reported.
7 Referenced changes in net combined ratio in the United Kingdom are between 2021 and 2022.
8 Based on McKinsey analysis of data from FactSet and Insurance Insider US.
9 "Total value of dwellings," Australian Bureau of Statistics, September 10, 2024.

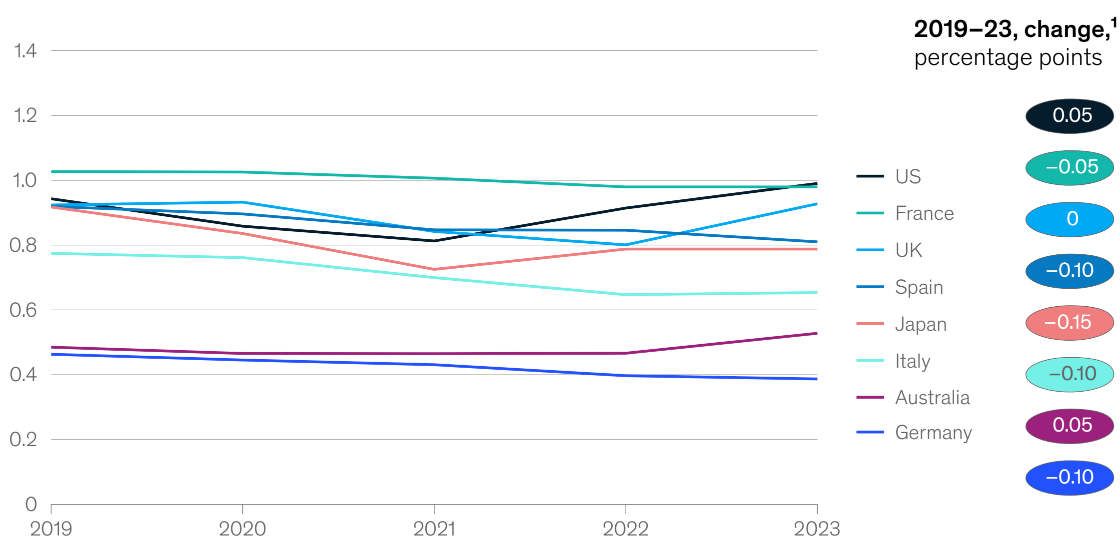
Exhibit 2

Affordability has remained stable globally, but home premiums as a share of household income increased in the United States and Australia.

Average home premiums as a share of average disposable household income, %



Average auto premiums as a share of average disposable household income, %



Note: 2022 values used as estimates for 2023 in countries for which 2023 policy counts are not yet reported.
[1]Rounded to the nearest 0.05 percentage point.
Source: Oxford Economics and relevant government publications for each country, accessed June 2024

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Scale wins in auto markets; home presents more granular, geographic opportunities

Auto insurance globally rewards scale, enabling top carriers within each market to capture the most growth and profits. That continued in most regions in the period from 2022 to 2023. The top five auto carriers in the United States captured 63 percent of premium growth and 72 percent of pretax income, for example, reaching about 55 percent market share. In Asia, Latin America, and most of Europe, the top five carriers have similarly captured the most growth and profits. Even in the few countries where smaller carriers captured a greater share of premium growth—such as Canada and France—the top five captured the greatest share of income (Exhibit 3). Yet opportunities for new and smaller carriers are emerging; as demographics, economics, distribution channels, and the mobility ecosystem evolve, new players and incumbents may find avenues for growth (for more, see chapter 2, "Trends affecting personal lines").

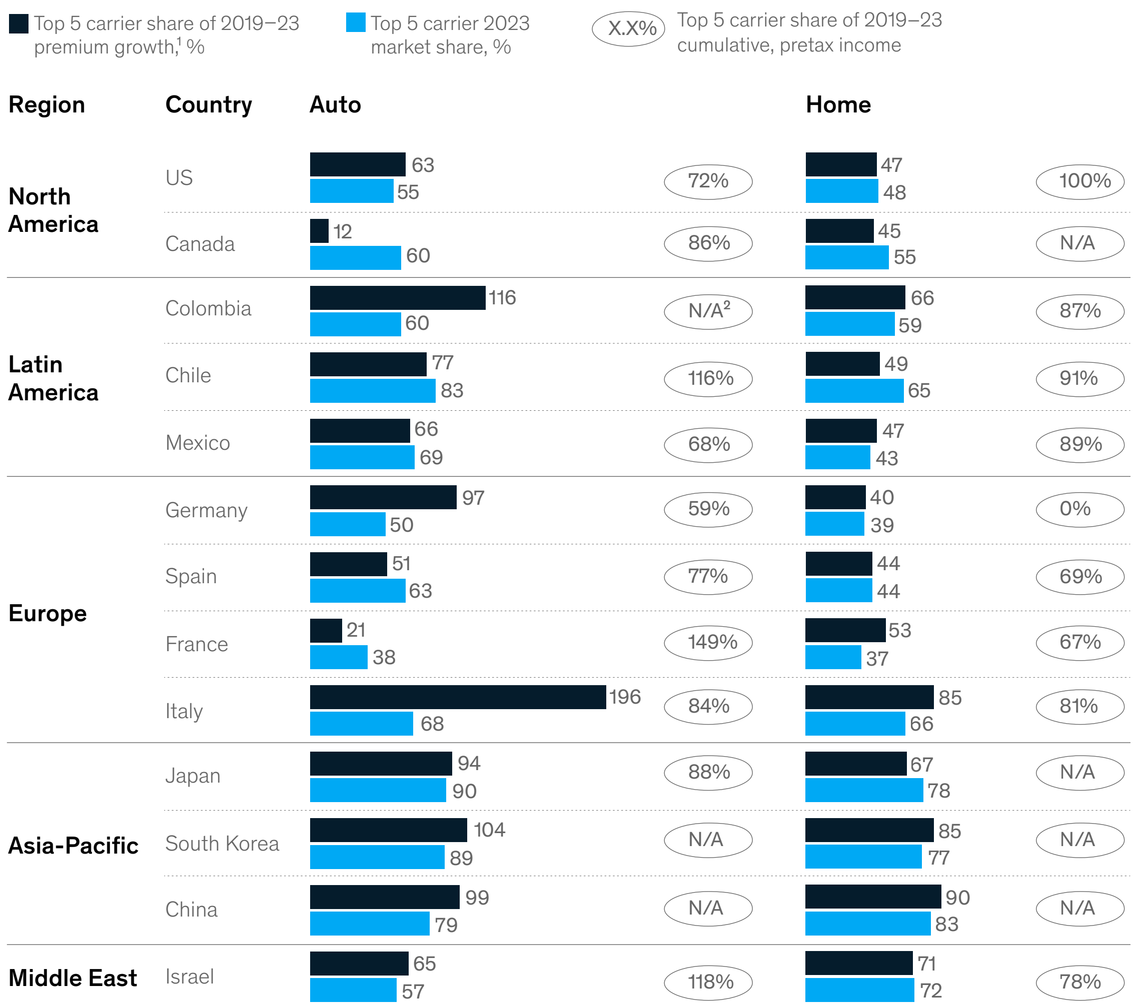
The homeowners insurance market is more fragmented in some economies. For example, in Germany, carriers outside the top ten captured 42 percent of premium growth and 32 percent of pretax income the past four years. In the United States, carriers outside the largest ten sustained market share of more than 35 percent, although the largest five carriers captured more income.

While scale is certainly important when it comes to homeowners insurance, this market presents more opportunities for carriers to differentiate within a specific customer segment. Carriers large and small have been able to capture growth by innovating in risk coverage and focusing on specific geographies. Especially as climates change, smaller, focused carriers can continue to capture growth by way of the historical patterns of many home insurance perils, geographic-specific insights and expertise to underwrite home insurance, and the relationship-driven nature of the business.

Opportunities for new and smaller carriers are emerging; as demographics, economics, distribution channels, and the mobility ecosystem evolve, new players and incumbents may find avenues for growth.

Exhibit 3

Auto insurance is a more concentrated market, while home insurance offers greater opportunities for growth and competition.



Note: Shares labeled greater than 100% indicate that the top 5 carriers captured premium growth or income while industry premium growth or income declined. Shares are labeled N/A if data is unavailable. Shares are labeled as 100% if the top 5 carriers captured income while industry incomes declined. Data includes commercial and personal lines auto and property if data for only personal lines is not reported.
[1]Top 5 carriers determined based on average yearly premiums from 2019 to 2023 for each product line.
[2]Labeled as N/A because top carriers exhibited negative profitability.
Source: A.M. Best Company; Australian Prudential Regulation Authority; China Insurance Yearbook; Dirección General de Seguros y Fondos de Pensiones; General Insurance Association of Japan; Gesamtverband der Versicherer; Infobila; MSA Research; S&P Capital IQ; SNL Global Banking Dataset; South Korea Financial Supervisory Service; Superintendência de Seguros Privados; McKinsey Global Insurance Pools; McKinsey analysis

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2 Trends affecting personal lines

Emerging mobility models, the increasing frequency and severity of natural disasters, and other disruptions are forcing carriers to rethink their approach to providing coverage. Growing relevance in emerging markets and growing value pools to serve an aging population provide opportunities to capture new growth. Evolved distribution and artificial intelligence may also spur innovation, helping the industry shift toward sustained, profitable growth.

New mobility models will force carriers to rethink their approach

Innovation is changing both the vehicles on our roads and how they are driven.

Advanced driver-assistance systems (ADAS) are already nearly universal, featured in most cars sold across the globe in 2023.[10] Though the additional cost of these features increases average severity, ADAS enable carriers to develop new and more personalized methods of risk assessment and pricing (by using more data), to reduce claims frequency (by cocreating solutions with auto manufacturers to reduce accidents), and to innovate products (such as usage-based insurance).

In 2023, overall sales of electric vehicles (EVs) grew rapidly, jumping by 35 percent (to nearly 14 million units) globally in 2023 compared with 2022.[11] This rapid growth has slowed in 2024. For example, the share of EVs in the United States shrank in Q1 2024 before recovering in the second and third quarters. The EU saw similar declines in the summer of 2024.[12] Yet we expect EVs to mature and represent approximately 15 percent of vehicles in operation globally in 2030 and 30 percent by 2035, with the largest growth in China, followed by Europe and the United States. This adoption may increase average claim size in the short term given that, in developed markets, components in EVs cost 70 percent more than those in conventional vehicles.[13]

Partial automation in vehicles is also expanding: we expect vehicles equipped with initial and partial driving automation capabilities, in which drivers must be available to take the wheel, to represent approximately 35 percent of vehicles in operation by 2030 and more than 50 percent by 2035.[14]

As the mix of vehicles on roads changes, so do people's mobility preferences. The market sizes of shared transport (such as ride-hailing) and micromobility (such as e-bicycles) are expected to double by 2030 in developed economies, continuing to evolve risk pools as drivers, modes of transportation, and number of miles driven all shift.

We expect this evolution to have significant implications for the structure of personal auto insurance markets. We expect an increasing share of commercial lines as segments such as car sharing or ride hailing continue to grow and as consumers opt for flexible ownership models. We expect further disruption from EVs, which have different frequency and severity profiles. Last, the evolution of ADAS will also open up new opportunities regarding risk assessment and behavior modification. These trends will create a new

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10 Molly Boigon, "Report: Some ADAS features are in more than 90% of new vehicles," *Automotive News*, October 2, 2024.
11 "Global EV outlook 2024: Trends in electric cars," International Energy Agency, April 2024.
12 "U.S. EV sales hit another record in Q3 2024: '10% share within reach,'" Inside EVs, October 13, 2024; "U.S. share of electric and hybrid vehicle sales increased in the second quarter of 2024," US Energy Information Administration, August 26, 2024.
13 Based on 2023 average cost per vehicle (estimated for each component within a vehicle) in developed markets of Europe, Japan, North America, and South Korea. Other regions (for example, China) typically have lower cost differences between EVs and conventional vehicles, and such cost differences are expected to decrease going forward.
14 Ibid.

market distinct from the traditional auto market that will require new underwriting capabilities and product adaptations, provide additional data, decrease claims frequency while increasing severity, and evolve current distribution channels.

In addition, the line between commercial and personal insurance will blur as ride sharing and the use of AVs grow. Ride sharing transfers responsibility from individual drivers to professional organizations, and AVs will shift responsibility from humans to machines. Carriers traditionally insuring personal lines will face a challenge: expanding to commercial lines and underwriting larger organizations, OEMs, and system providers.

Finally, at some point, premiums for conventional auto personal lines coverage may decline as fully automated vehicles are adopted. This timeline is unclear, given significant factors such as regulatory considerations, technical challenges, and user reluctance.

These shifts create both opportunities and imperatives for change. Actions carriers can take include forming partnerships with OEMs and EV providers to access a broader client base and data, innovating EV and AV risk assessment and coverage, and developing products and ecosystems specific to new vehicles.

We expect an increasing share of commercial lines as segments such as car sharing or ride hailing continue to grow and as consumers opt for flexible ownership models.

Investing in new capabilities that can help in managing natural disasters

Natural disasters and associated economic losses[15] have significantly increased in the past two decades as climate patterns have shifted.[16] Volatility from natural disasters has also increased: for instance, the standard deviation of economic losses nearly doubled in Europe and the Americas between the period from 2000 to 2015 and the period from 2016 to 2023. Together, these shifts have made prediction and pricing increasingly difficult.

Coverage of losses continues to be insufficient. From 2016 to 2023, nearly 70 percent of global losses from natural disasters were not insured, equaling up to about $260 billion in uninsured losses in a given year (Exhibit 4).[17]

Exhibit 4

Globally, natural disasters and their associated economic losses have risen 10 and 36 percent, respectively.

2000–15 | 2016–23

Disaster events and losses: ↑ Increasing ↓ Decreasing

Region	Average yearly natural disaster events,[1] number (2000–15)	Average yearly natural disaster events,[1] number (2016–23)	Difference, %	Average yearly natural disaster economic losses, $ billion (2000–15)	Average yearly natural disaster economic losses, $ billion (2016–23)	Difference, %	Average yearly share of insured losses, % total economic losses, 2016–23
US	56	85	↑ 52	100	164	↑ 64	55
Americas (Non-US)	74	67	↓ 10	21	41	↑ 97	22
EMEA	112	125	↑ 12	44	66	↑ 51	26
APAC	146	151	↑ 3	116	112	↓ 4	14
Global	387	427	↑ 10	281	383	↑ 36	34

Note: Losses adjusted for inflation (in 2023 dollars).
[1]An event must meet at least one of the following criteria to be classified as a natural disaster in Aon's Catastrophe Insight Database: economic loss of $50 million, insured loss of $25 million, 10 fatalities, 50 injured, 2,000 structures damaged or claims filed.
Source: Aon Climate and Catastrophe Insight

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[15] While data outlining the direct number of economic losses associated with personal lines is not available, we expect personal lines—and especially homeowners insurance—to behave consistent with the market.

[16] *2024 climate and catastrophe insight*, Aon, 2024. An event must meet at least one of the following criteria to be classified as a natural disaster in Aon's Catastrophe Insight Database: economic loss of $50 million or greater; insured loss of $25 million or greater; fatalities of ten or more people; injuries of 50 or more people; or 2,000 or more structures damaged or claims filed.

[17] Losses adjusted for inflation (in 2023 dollars).

While this was an improvement compared with the 75 percent of uninsured losses from 2000 to 2015, it seems clear the industry is not providing sufficient levels of risk transfer under current models.

Specific regions face acute challenges. For instance, the five-year average cost associated with billion-dollar natural disasters increased in Florida from $1 billion in 2000[18] to nearly $26 billion in 2023, compared with a fivefold increase across the United States (from $24 billion to $123 billion).[19] A similar increase in average losses from natural disasters—mainly floods—was observed in northern Italy,[20] relative to the rest of the country.

Risks from natural disasters will likely keep rising, increasing the protection gap. For instance, the first half of 2024 was the second costliest on record for insured losses from severe thunderstorms and was 87 percent higher than the ten-year average.[21] Increases of up to 20 percent in average annual losses are expected in the United States during the next decade, with the effect of natural disasters predicted to jump more than tenfold in specific counties (for example, some within Idaho, New York, and Washington).[22]

Across regions, the industry response is taking shape, including carriers and public–private models. Some carriers have increased underwriting sophistication by partnering with other players and improving data and analytics capabilities to understand risks more granularly. Some carriers have directly supported policyholders through risk-mitigating efforts (such as home walk-throughs and in-home monitoring devices to identify and reduce vulnerabilities), while others have adjusted products and tightened terms and conditions to reflect changing risks and affordability needs (such as by offering separate roof coverage). As a last resort, some carriers have refocused their geographic appetite.

Additionally, countries are debating and experimenting with different public–private models to address the natural disaster challenge. In some countries, mandatory models have emerged—for example, government-offered flood insurance is a requirement in France. In other countries, such as the United States, flood insurance is optional for owners without a mortgage. Carriers may look to tailor their approach to public–private models depending on the country and business line in which they operate.

From 2016 to 2023, nearly 70 percent of global losses from natural disasters were not insured, equaling up to about $260 billion of uninsured losses in a given year.

18 Florida did not experience billion-dollar natural disasters in select years.
19 "United States billion-dollar disaster events 1980-2024 (CPI-adjusted)," National Centers for Environmental Information, accessed October 17, 2024.
20 Includes Emilia-Romagna, Friuli-Venezia Giulia, Lombardia, Trentino-Alto Adige, and Veneto.
21 "Severe thunderstorms drive insured losses to USD 60 billion in first half of 2024, Swiss Re Institute estimates," Swiss Re, August 7, 2024.
22 Based on McKinsey Climate Analytics.

Select emerging markets are on the verge of expanding relevance, creating opportunities for granular growth

Personal lines' relevance is correlated with GDP per capita: as countries develop and economics improve, customers are more willing and have greater means to purchase insurance, which creates opportunities to increase relevance. Markets with GDP per capita of less than $10,000 typically have relevance levels below 0.5 percent, while mature markets with GDP per capita greater than $30,000 usually reach relevance levels above 1.0 percent. Countries with GDP per capita of $10,000 to $30,000 are in a potential "high growth" region—that is, they are poised for increases in relevance, driven by growth in GDP per capita (Exhibit 5).[23]

Notable countries in the high-growth zone that present opportunities for local and international carriers include Brazil, Chile, Malaysia, Mexico, Poland, and Türkiye. Similarly, China is within the high-growth zone because its population makes it one of the largest personal lines markets (worth about $110 billion) and it has a growing GDP per capita.[24]

Other attractive opportunities consist of markets currently outside the high-growth zone but with rapidly accelerating GDP per capita. These include Colombia, Indonesia, and the Philippines, where GDP per capita is expected to grow by 3 percent or more annually through 2033. While this alone may not push these economies into the high-growth zone, their timeline could rapidly accelerate through other evolving factors, such as growth in insurance education, population, and external investment.

It is important to note that, even if relevance remains constant, countries with large populations and rapid GDP growth also present growth opportunities. India has, for instance, the potential to be a major market, given favorable demographics and economics, higher literacy rates, and nearly $30 billion of yearly foreign direct investment.

Notable countries in the high-growth zone that present opportunities for local and international carriers include Brazil, Chile, Malaysia, Mexico, Poland, and Türkiye.

[23] Based on examples from France, the United Kingdom, and the United States. Other factors—such as political stability and level of bancarization—also affect market maturity and insurance's relevance. Underlying data is from the US Census Bureau International Database and from the Oxford Economics Country Economic Forecasts Brochure.

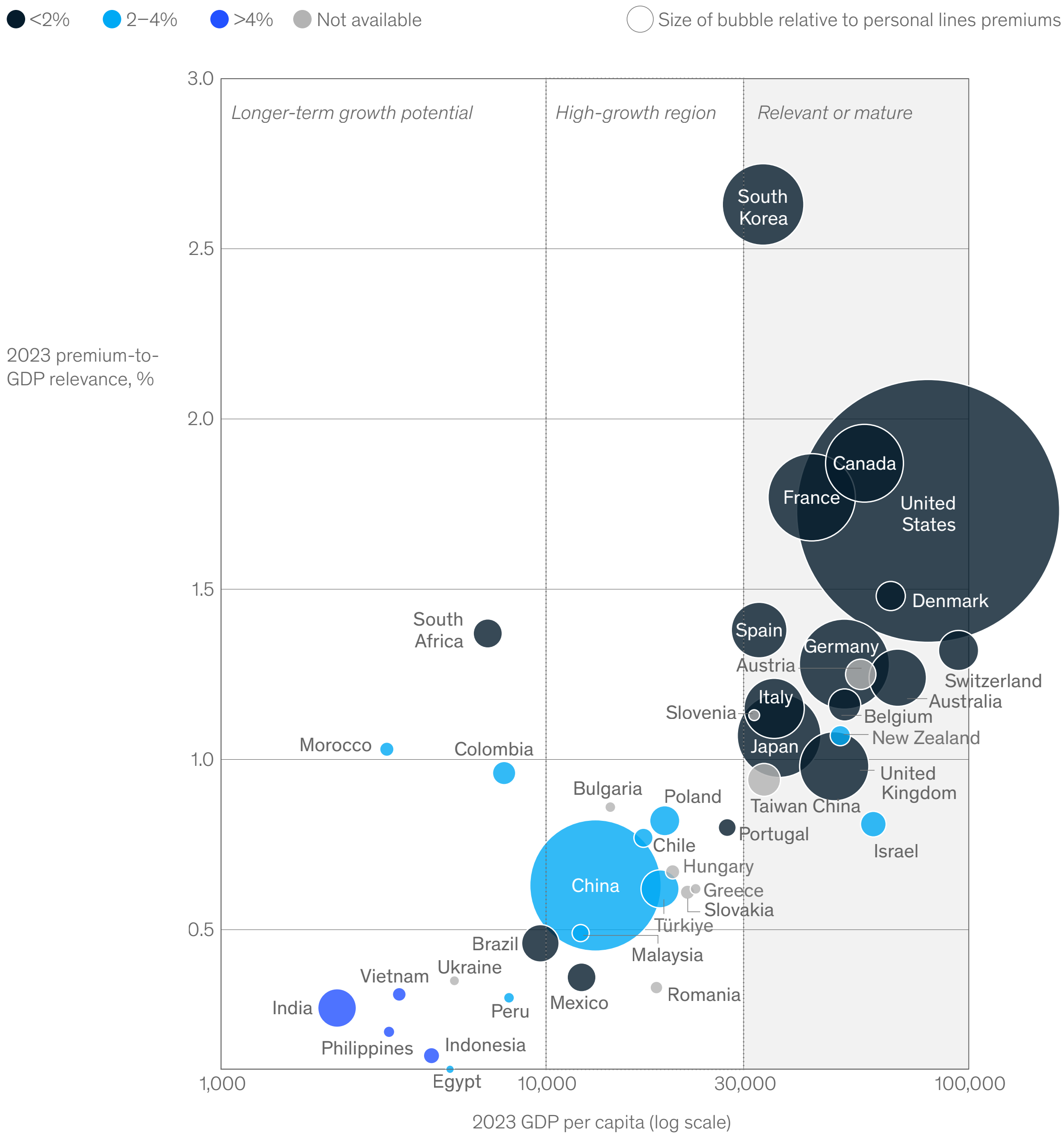
[24] China GDP based on "GDP per capita, current prices," International Monetary Fund, accessed October 11, 2024.

Exhibit 5

Select emerging markets are on the verge of expanding relevance, creating opportunities for granular growth.

2023 personal lines premium-to-GDP ratio relative to GDP per capita,[1]

Projected 2023–33 real GDP per capita growth[2]



[1]Countries with personal line premiums of less than $0.5 billion excluded from graph.
[2]Based on market consensus and US Census Bureau real GDP projections.
Source: Oxford Economics; US Census Bureau International Database

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Demographic changes present opportunities for innovation and growth

Two major demographic-related shifts present opportunities for innovation and growth.

First, the share of the world's population aged 65 or older is projected to grow from 12 percent in 2023 to 15 percent by 2033, reaching more than 20 percent in North America, Western Europe, developed Asia, and China (Exhibit 6).[25] Older customers tend to present a different risk profile and insurance needs. For auto insurance, older customers tend to have lower accident frequency but higher accident severity and medical claim payouts (for instance, the fatality rate of older drivers in the United States is 1.5 to 4.0 times higher than that of younger drivers).[26] Shifts in risk exposure as populations age present an opportunity for carriers to master product enhancements (for example, personal accident, in-home assistance, or multiyear policies, given the older population's decreased use of cars and lower likelihood to switch homes), risk pricing and underwriting (such as advanced segmentation), and distribution to cater to the aging population.

The second shift relates to the purchasing habits of consumers. In mature markets, major purchases of homes and autos are occurring later in life: in Germany and the United States, for example, the age of first-time homebuyers has increased by about three years in the past decade. As consumers' life journeys increasingly vary, carriers have an opportunity to evolve brand loyalty by providing a broad set of personalized solutions (through both proprietary channels and brokerage) across a customer's lifetime—

Exhibit 6

By 2033, the proportion of population aged 65 or older is projected to exceed 20 percent in developed markets and reach 15 percent globally.

Share of total population aged ≥65, %

Region[1]	**2023**	**2033E**
North America	18	21
Western Europe	21	25
Emerging Asia	10	14
Developed Asia	24	28
Latin America and the Caribbean	10	13
Middle East and Africa	6	7
World	**12**	**15**

Share of total population aged ≥65, %

Country (not exhaustive)	**2023**	**2033E**
United States	18	21
Canada	21	25
Italy	23	28
Spain	21	26
Germany	23	29
Switzerland	20	25
France	22	25
United Kingdom	19	22
China	14	20
Japan	29	32
South Korea	18	27

[1]North America: Canada and US; Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and UK; emerging Asia: China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam; developed Asia: Australia, Hong Kong SAR, Japan, New Zealand, Singapore, South Korea, and Taiwan China; Latin America and the Caribbean: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Trinidad and Tobago; Middle East and Africa: Bahrain, Egypt, Iran, Jordan, Kenya, Morocco, Nigeria, South Africa, Tunisia, Türkiye, Saudi Arabia, and UAE; Eastern Europe: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine.
Source: Oxford Economics

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[25] "International Database: Population by age," US Census Bureau, accessed October 11, 2024.

[26] Based on a July 2024 article from the Insurance Institute for Highway Safety (IIHS) measuring the number of passenger vehicle driver fatalities per 1,000 drivers involved in police-reported crashes by driver age and comparing ages 65 and older to ages 50 and younger. See "Older drivers," IIHS, updated July 2024.

such as beginning with renters' insurance tailored to young adults; then offering car, accident, and travel insurance year over year; and finally, proposing home insurance to middle-aged consumers.

Similarly, select emerging markets present granular opportunities for carriers to grow and expand personal lines insurance beyond auto and home by tailoring it to specific needs. This growth is already under way: liability, accident, and other P&C insurance grew 11 percent, 9 percent, and 9 percent, respectively, in emerging markets between 2022 and 2023—compared with 4 percent growth in mature markets. A similar trend holds true within individual countries such as Egypt, India, and Mexico.

Distribution is changing to get closer to the customer as players embed the purchase of insurance into broader purchases of goods and services

Distribution channels keep evolving. New carriers and incumbents alike are leveraging customers' trust, time, and proximity to sell insurance, as well as providing seamless experiences when and how customers need them.

Embedded insurance—sold at the point of sale for a product or service—is not a new development: for years, electronics retailers have bundled warranty coverage and banks have distributed life products. Yet embedded insurance is evolving across industries, such as telcos and supermarkets, through the emergence of players that are building ecosystems of services and products that include insurance linked to original products.

Embedded insurance has advanced most quickly in Asia, where a supportive regulatory environment, faster adoption of EVs and AVs, and unique platform dynamics have facilitated a robust growth landscape for carriers. We estimate Asia's nonlife embedded insurance market will be worth about $170 billion by 2030.[27]

Some players are expanding beyond embedded insurance to provide a full range of solutions. This progression is like that of bancassurance, which has been among the fastest-growing channels globally and now represents about 9 percent of nonlife premiums in Europe and as much as 25 percent of the market in Latin American countries such as Chile.[28] Bancassurance's progression started with life insurance linked to credit, expanded to home insurance linked to mortgages, and now includes a comprehensive suite of stand-alone insurance products coupled with banking services.

Similarly, retailers in Europe and Latin America are using their large physical footprints, frequent customer interactions, and new customer data to inform pricing and distribute a full suite of products coupled with traditional retail services.

In addition to expanding products, players including banks, retailers, and traditional carriers are turning to digital channels as customers grow accustomed to purchasing online. In Europe, this has primarily taken place through bancassurance, where nonlife digital channels doubled to 28 percent in 2022 compared with 14 percent in 2017. In Australia and the United States, digital sales have expanded beyond banks (for example, reaching 31 percent of premiums in Australia in 2023, compared with 16 percent in 2019).

[27] "Why Asian insurers are ideally positioned for embedded market gains," McKinsey, July 17, 2023.
[28] Based on data from McKinsey bancassurance forums held in Latin America on August 31, 2023, and in Europe on November 15–16, 2023.

These developments all bring insurance closer to the customer, when and how they need it, in a trusted environment. While distribution will not change overnight, competition is expected to intensify—with implications for carriers. First, the role of the traditional agent will need to evolve to provide more value to customers to maintain relevance in most segments, particularly in traditional auto and home lines. This includes offering more-comprehensive risk-based assessments on existing home insurance coverage gaps, education on technologies to aid risk prevention (such as connected devices), and more-comprehensive domain expertise (such as cybersecurity).

Further, cracking the code with the right partnerships (for instance, distribution partnerships with retailers or OEMs) will become critical for carriers to navigate nontraditional channels. These partnerships could create winner-takes-most environments with products such as EVs while simultaneously allowing carriers to access granular data and a wider customer base.

Gen AI is fueling wholesale reimagination of the value chain

Advanced data and analytics capabilities in support of pricing sophistication and underwriting excellence are becoming table stakes for leading carriers across the globe. Carriers are doubling down on gen AI to reimagine the value chain end to end, developing lean organizations, establishing effective operations, and offering personalized experiences to customers.

In sales and distribution, for example, gen AI–powered copilots for agents and other salespeople can provide real-time, step-by-step recommendations to agents based on a customer's unique details. In pricing and underwriting, gen AI can extract insights from rate filings to inform new class plan features or even enable further granularity in segmentation from existing models (for example, personalizing offerings by individual, or a so-called "segmentation of one"). In claims, gen AI can improve accuracy of decision making by providing a "second set of eyes" and supporting adjusters in prioritizing workflows or significantly reducing the time typically spent reviewing documents. With customer service, gen AI–powered chatbots can help provide real-time coaching to help representatives answer policy questions, reducing call handling time.

As carriers advance gen AI capabilities, the race for talent and data will intensify, given cross-industry competition for data scientists and engineers. Winning this race has direct implications for carriers in the near term, given that opportunities are available for capture.

3 Next steps: Three archetypes to find and enable growth

Individual carriers are already making deliberate choices and shifting their business models in response to the industry's performance. While strategies will vary by region, we see three major carrier archetypes emerging, each with clear-cut areas of distinctiveness and short-term versus long-term strategies.

Core, at-scale players concentrated on insuring traditional coverage

Leading carriers will look to use their national scale, broad distribution network, and brand strength. As competition increases (through widening distribution channels, technological innovation, and more), these carriers will be required to ensure best-in-class technical excellence. Rewards will flow to those focusing on underwriting excellence to quickly adapt to underlying shifts in risks (such as making swift rate and nonrate actions and informing agile shifts in underwriting strategies through claims feedback loops) and offering highly productive customer service (such as by increasing automation in claims processes) while preserving a human touch where it is most valued. These carriers will still adapt products and distribution in response to the evolving market landscape (for instance, mobility trends and natural disasters) (Exhibit 7a).

Innovators expanding coverage through specialized products

These carriers will evolve specialized products sold through newer channels and insure new risks that remain unmet by the industry (for example, EVs or home exposures in high-risk areas). Although it is complicated, those who develop specialized products and insure new risks—through careful risk selection coupled with the right capabilities—may capitalize on industry needs and unlock profitable coverage. This will require a clearly defined strategy that experiments and learns in the short term—through product adaptations (such as usage-based insurance or white-labeling) and channel adaptations (such as an embedded and evolved role of agents)—and that scales to holistic coverage in the long term through comprehensive solutions and evolved channel coverage (partnership-based, proprietary, and more) (Exhibit 7b).

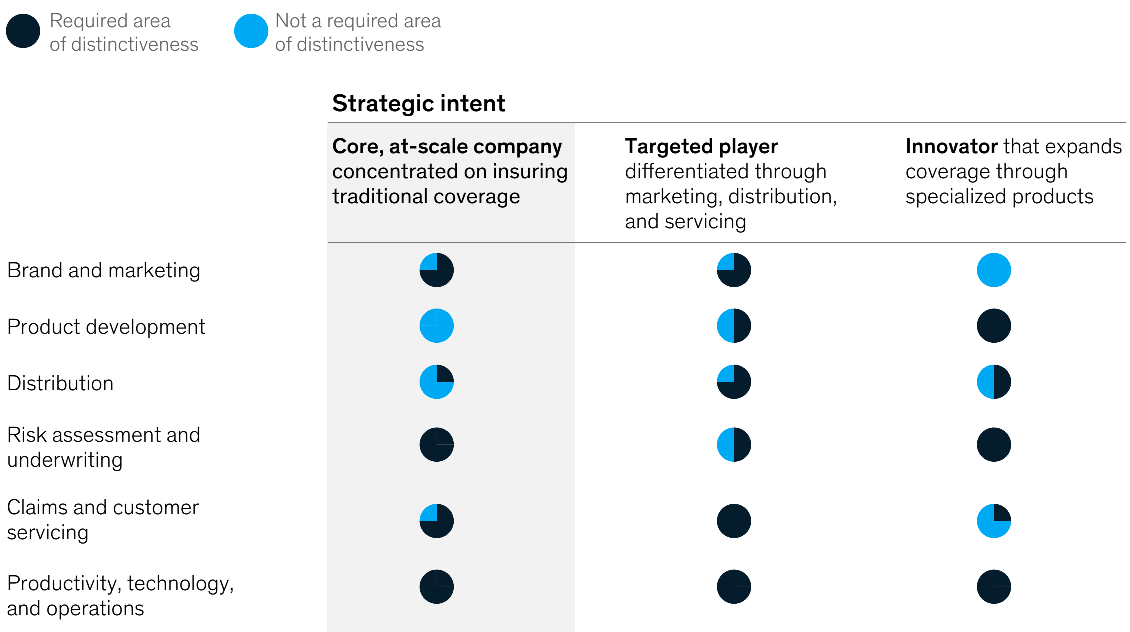
Targeted players differentiated through marketing, distribution, and servicing

These carriers will lean on their strong brand and networks in traditional product segments to address customer needs and offer best-in-class customer service within a specific geography, through a specific channel, or to a specific segment. Doing so requires a superior, targeted value proposition. In the short term, this implies tailoring existing products (for instance, microinsurance for a specific region or customer segment), forming partnerships and entering new channels (such as retail or digital), and investing in specific data and talent to strengthen underwriting. In the long term, it implies pursuing more-complex product sets across a customer's lifetime, establishing a multichannel approach tailored to a specific geography, improving underwriting data, and offering best-in-class claims services as a differentiator (Exhibit 7c).

These three archetypes are not mutually exclusive—in fact, future winners in the market will likely be those that leverage their existing position in the core to expand into adjacencies while strategically selecting niches in which to innovate. Doing so requires a comprehensive growth system.

Exhibit 7a

Where to go from here to enable growth: Three main archetypes will likely emerge in the industry.



A. Details for core, at-scale companies

Brand and marketing	**Leverage and double down** on an at-scale, recognized brand
Product development	Experiment with **product adaptations** (eg, multiyear policies) and **refine products as landscape evolves** (mobility shifts, etc)
Distribution	**Strengthen existing channels,** consider partnerships (eg, retail), and adapt channel strategy as the landscape evolves (eg, M&A)
Risk assessment and underwriting	**Ensure best-in-class underwriting excellence** to adapt to shifts in risks (using granular geographic risk data to assess property risk, etc)
Claims and customer servicing	**Ensure highly efficient operations** by informing agile shifts through claims feedback loop and implementing risk prevention and automation
Productivity, technology, and operations	**Strategically rethink the entirety of the insurance value chain,** leveraging advanced data and analytics and AI and generative AI (gen AI); **form strategic partnerships** (eg, with emerging insurtechs with gen AI solutions); and **build culture and processes** that allow for quick deployment of future AI and gen AI solutions

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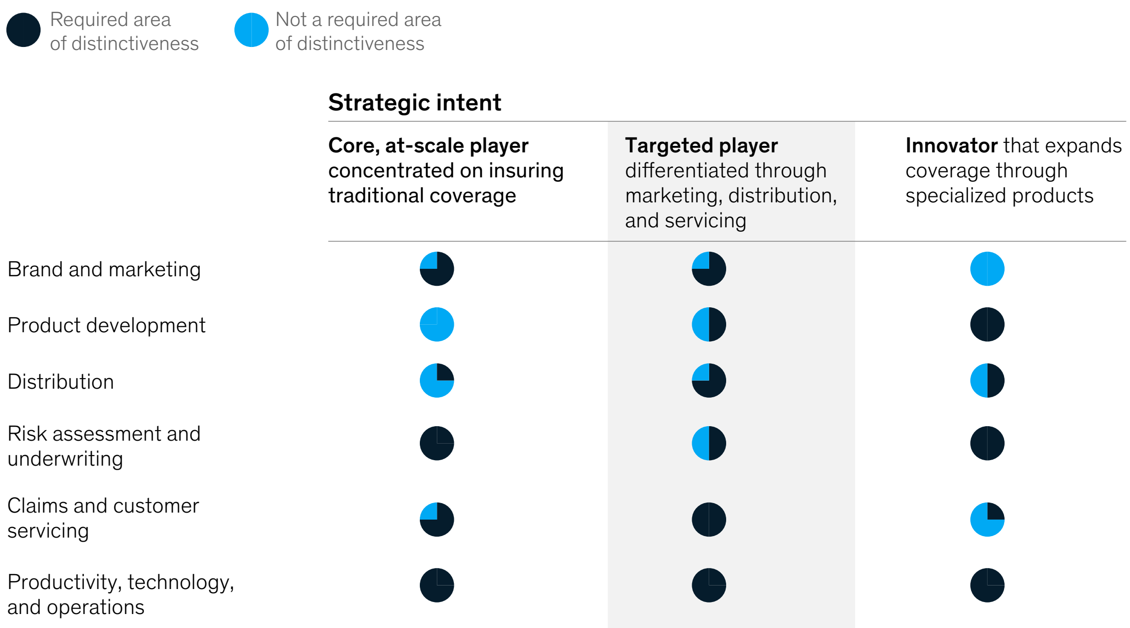
Exhibit 7b

Where to go from here to enable growth: Three main archetypes will likely emerge in the industry.



B. Details for innovators

Brand and marketing	**Clearly define and evolve** brand over time
Product development	**Define focus area** and experiment with new products and features (eg, usage-based, bundling) Double down on the focus area through **holistic solutions** (eg, comprehensive mobility coverage)
Distribution	**Experiment with new distribution** (eg, embedded) while evolving role of agents and forming ecosystems (eg, auto insurance, purchase, and maintenance)
Risk assessment and underwriting	**Invest in data to price new risks** (eg, ADAS[1] for auto, geospatial analysis for climate risk) **Rethink risk assessment entirely** (eg, embed with other purchase experiences)
Claims and customer servicing	**Emphasize agile, rapid claims feedback loop** by collecting and learning from new claims data (eg, latest climate risks, electric- and autonomous-vehicle data)
Productivity, technology, and operations	**Strategically rethink the entirety of the insurance value chain,** leveraging advanced data and analytics and AI and generative AI (gen AI); **form strategic partnerships** (eg, with emerging insurtechs with gen AI solutions); and **build culture and processes** that allow for quick deployment of future AI and gen AI solutions

[1]Advanced driver-assistance system.

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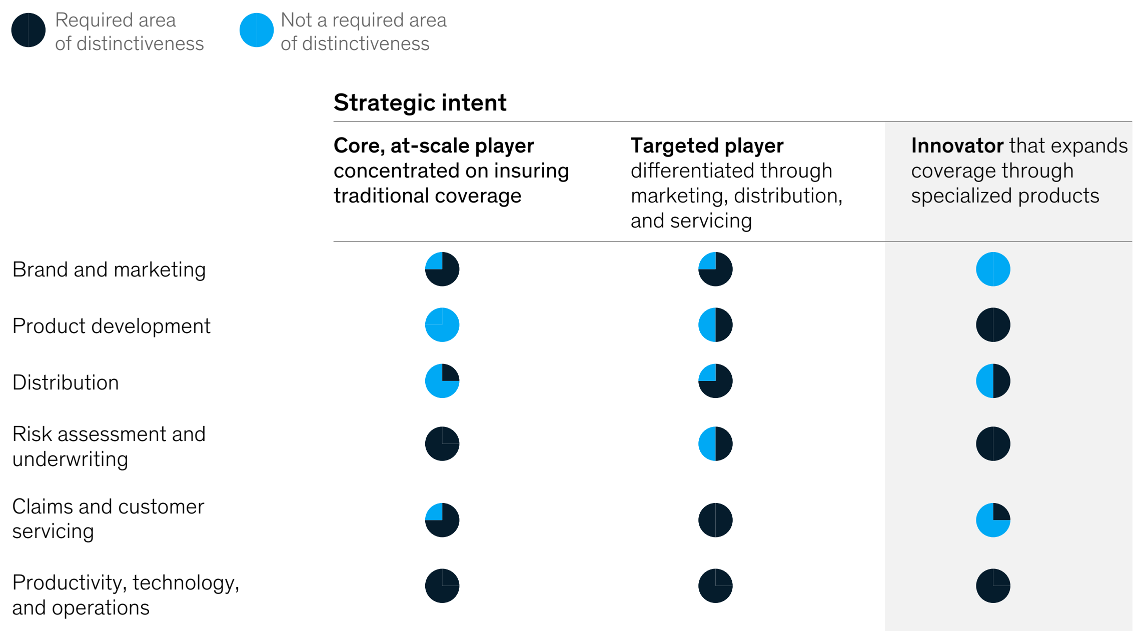
Exhibit 7c

Where to go from here to enable growth: Three main archetypes will likely emerge in the industry.



C. Details for regional companies

Brand and marketing	**Develop a well-recognized brand** through clear value proposition, marketing, and advertising
Product development	**Tailor existing products to region, segment, or channel** (eg, microinsurance) **Rethink coverage** through embedded products and more-complex adaptations (eg, on-and-off coverage) across a customer's entire lifetime
Distribution	**Form partnerships in or develop new channels** specific to customer or region, (eg, bancassurance) **Double down on access** to proprietary insights
Risk assessment and underwriting	**Invest in data and expertise specific to region, customer segment, or channel** (eg, data on population aged 65 or older, electric- or autonomous-vehicle projections in a specific market)
Claims and customer servicing	**Offer best-in-class customer experience** with claims servicing as a differentiator (eg, white glove service for high-net-worth segment)
Productivity, technology, and operations	**Strategically rethink the entirety of the insurance value chain,** leveraging advanced data and analytics and AI and generative AI (gen AI); **form strategic partnerships** (eg, with emerging insurtechs with gen AI solutions); and **build culture and processes** that allow for quick deployment of future AI and gen AI solutions

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Conclusion

To identify, plan for, and make the most of opportunities in the evolving market landscape, carriers can implement systems that approach growth comprehensively (through consistent tools, language, and tracking and reporting), promote unconstrained ideation (centered on customer needs and new knowledge and expertise), build long-term capabilities (such as by integrating the growth system approach into existing client-facing and internal processes), instill value assurance (through a single source of truth, as well as through transparency and rigor in planning and performance), and shift leadership mindsets and culture (for example, by creating a "business builder" mindset).

We believe that the industry's outlook is positive and that, going forward, players will seek to innovate and expand coverage in the pursuit of profitable growth, increasing the industry's relevance as a result.

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The authors wish to thank Amy Enrione, Angat Sandhu, Ani Kelkar, Christopher Craddock, Cristina Martos, Daniel Garza, Doug McElhaney, Eleonora Sharef, Jaime Morales, Nataliya Fedorenko, Salomon Spak, Shitij Gupta, Sirus Ramezani, Stefan Pöhler, Suneet Jain, and Zach Bruick for their contributions to this report.

Global Insurance Report 2025: Searching for profitable growth in commercial lines

Profitable growth is increasingly hard to find. Commercial property and casualty insurers need to be deliberate about where and how they compete.

This article is a collaborative effort by Holger Wilms, James Polyblank, Shannon Varney, and Susanne Ebert, with Asim Bokhari, Nick Diganci, and Stuti Khaitan, representing views from McKinsey's Insurance Practice.

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Introduction

In an industry that revolves around reducing uncertainty for customers, commercial P&C insurers are themselves confronting macroeconomic uncertainty across multiple fronts.

— Inflation has remained stickier than expected in many economies, and in regions where it persists, customers are likely to retain more risk than usual, creating pressure on growth.

— While interest rates are beginning to decline in some markets, uncertainty remains as central banks revise timetables for monetary easing,[1] directly affecting insurers' ability to project investment returns.

— Consumer confidence is shaky even though the economic growth cycle appears to have bottomed out across most economies, including those most relevant for the commercial lines industry.[2]

— Geopolitical instability and the associated possibilities of supply chain disruptions[3] are among the top perceived threats to global growth and can have wide-ranging implications for commercial insurers in the coming years, especially in certain lines, such as marine cargo and business interruption.

— Trade patterns are shifting, with signs of protectionism on the horizon: the number of new global trade restrictions has steadily increased, from about 650 in 2017 to more than 3,000 in 2023.[4]

This macroeconomic environment calls for cautious optimism about the prospect of continued economic expansion, balanced by the potential for periods of slow to no growth, given the market's turbulence.

But commercial P&C also faces other headwinds.[5] Climate risks are increasing, especially as a result of severe convective storms: last year was the warmest on record, and scientists estimate there is a one-in-three chance that 2024 will be even hotter.[6] Additionally, corporate legal defense spending on class action lawsuits in the United States increased by 8 percent in 2022 and by 5 percent in 2021.[7] This leads to higher claims costs and ultimately has a negative impact on affordability across the industry.

While turbulence in the market is expected to prevail in coming years, insurers cannot rely on continually rising premiums, or a continuation of today's hard cycle, to drive growth. That's why it's a critical time for them to reassess how they will capture growth profitably as they navigate this shifting landscape.

[1] *Global Economics Intelligence: Global Summary Report*, McKinsey, June 2024.
[2] Ibid.
[3] "Economic conditions outlook, June 2024," McKinsey, June 2024.
[4] "Geopolitics and the geometry of global trade," McKinsey Global Institute, January 17, 2024.
[5] *Global Insurance Report 2023: Expanding commercial P&C's market relevance*, McKinsey, February 16, 2023.
[6] "2023 was the world's warmest year on record, by far," National Oceanic and Atmospheric Administration, January 12, 2024.
[7] "Social inflation remains a thorn in the side of casualty insurers," AM Best, May 2024.

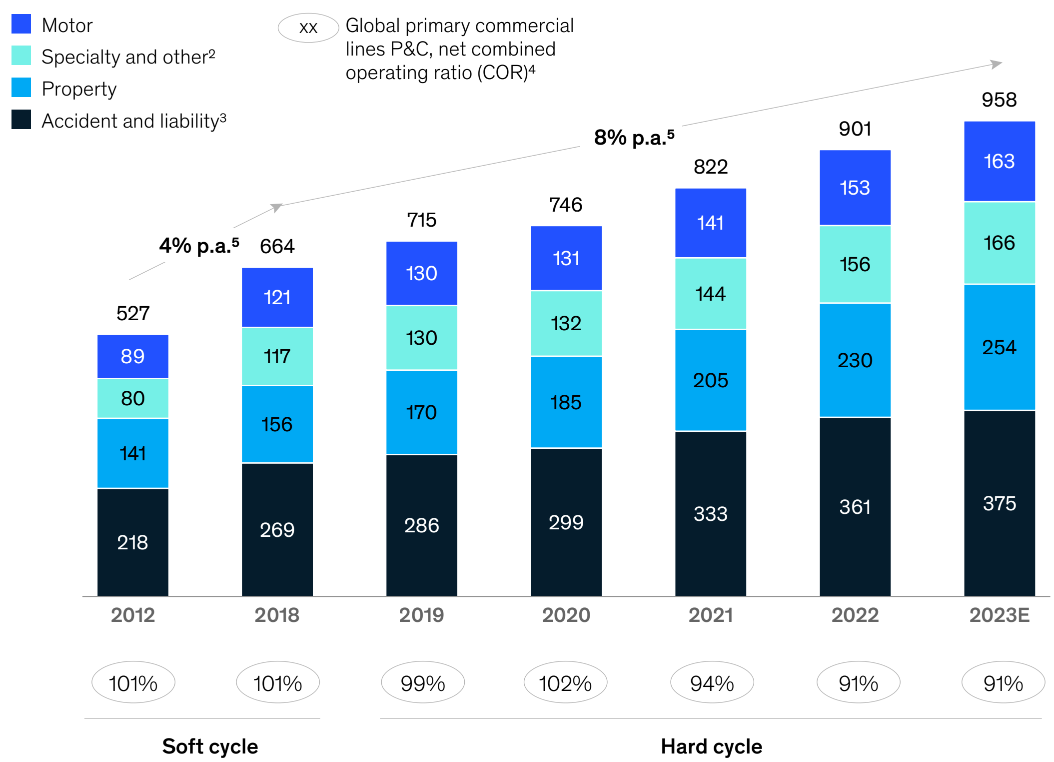
1 Finding growth beyond rate increases

Global commercial property and casualty (P&C) insurance lines continued to deliver strong growth despite more recent evidence of softening conditions. Premiums increased by an average of 8 percent annually during the past five years, while the average combined ratio for the industry trended downward to an estimated 91 percent in 2023 (Exhibit 1).[8]

Exhibit 1

Despite recent macroeconomic turbulence, commercial line premiums continue to grow year over year.

Global primary commercial lines property and casualty (P&C) insurance premiums, $ billion[1]



Note: 2023 premiums based on preliminary estimates. 2023 net COR based on reported figures. Figures may not sum, because of rounding.
[1]Based on 2022 average fixed exchange rate.
[2]Includes all other lines (eg, marine, aviation, transport, credit and surety, agriculture, etc).
[3]Includes commercial liability, workers' compensation, and commercial accident policies.
[4]Gross written premium weighted average net COR of 25 primary commercial lines carriers.
[5]Per annum.
Source: AM Best; annual reports; McKinsey Global Insurance Pools

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[8] Global Insurance Database, AM Best, June 2024; McKinsey Global Insurance Pools, Markets database.

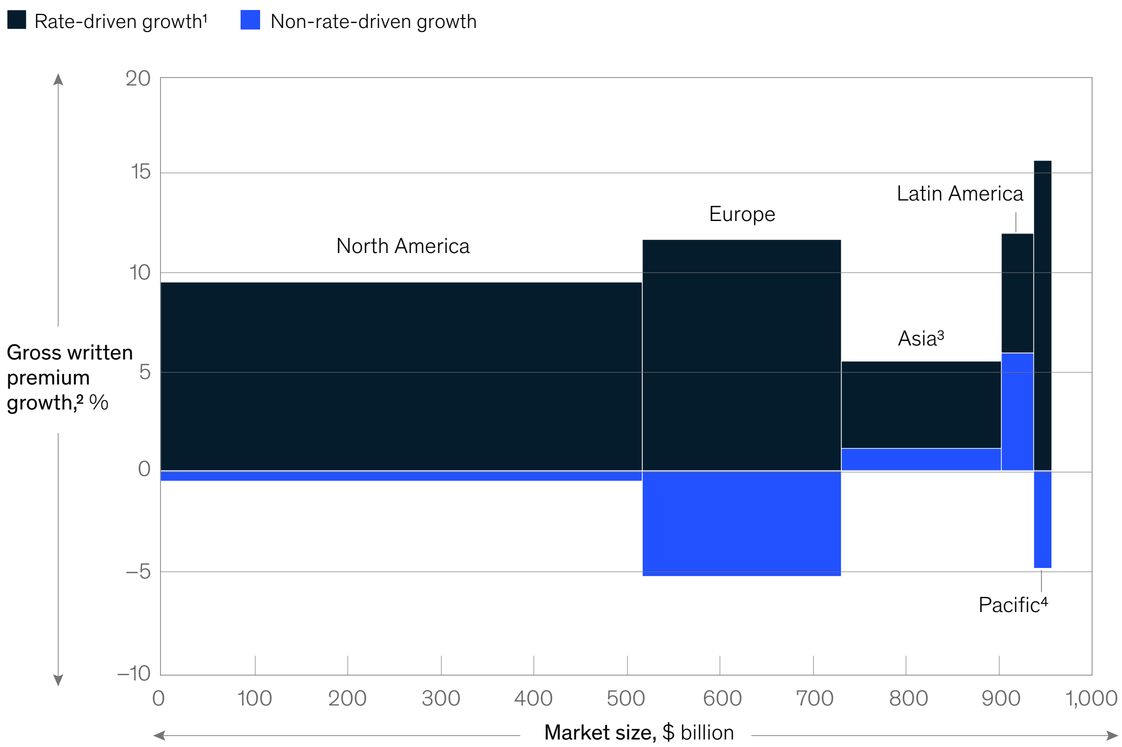
Almost all of this growth has been driven by higher premiums, or rate hardening. In fact, aggregate growth across European and North American markets was entirely the result of higher rates during the past five years, while factors unrelated to rates reduced overall premium growth (Exhibit 2).[9]

With insurance rates showing signs of softening in select lines such as financial and professional liability, there is now a global imperative to find growth through something other than increasing rates. The challenge is already evident: global composite rates held flat in the second quarter of 2024 for the first time in close to seven years, having decelerated consistently since the final quarter of 2020.[10]

Exhibit 2

Most growth since the beginning of the hard-market cycle has been propelled by rate growth.

Global commercial lines property and casualty gross written premium (GWP) growth rate by geography, 2019–23, %



[1]Calculation normalizes for rate changes since 2018.
[2]Growth rates are not additive but are juxtaposed for relative size portrayal.
[3]Based on 12 leading economies.
[4]Based on Australia.
Source: Marsh Global Insurance Market Index; McKinsey Global Insurance Pools

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[9] *Global Insurance Market Index second quarter 2024*, Marsh, 2024; McKinsey Global Insurance Pools, markets database.
[10] *Global Insurance Market Index*, 2024.

To combat this pricing uncertainty and the potential of further softening, insurers must consider alternative growth scenarios. They need to reassess the clarity and focus of their strategies, the distinctiveness of their capabilities, and their efficiency and agility. For example, underwriting operations are often slow to react to changing market conditions, and insurers need to ensure they are nimble enough to shift their strategies should rates soften.

Is demand for commercial insurance growing? Not fast enough, as protection gaps widen.

This dynamic aligns with our previous findings that the commercial P&C industry continues to risk losing relevance in a changing world—a trend that has continued with a widening of the protection gap, or the difference between economic losses and insured losses.[11]

The global protection gap for natural catastrophes grew to $262 billion in 2023 from $181 billion in 2022, with losses last year also materially above the long-term figure. The majority of disaster losses were covered in the United States but not in other regions.[12] In addition, a massive protection gap persists for cyberthreats: less than 1 percent of global cyber costs are insured,[13] with premiums projected to reach about $23.0 billion by 2025 but cybercrime costs expected to reach $10.5 trillion by 2025.[14]

The global protection gap for natural catastrophes grew to $262 billion in 2023 from $181 billion in 2022, with losses last year also materially above the long-term figure.

[11] *Global Insurance Report 2023*, February 16, 2023.
[12] *2023 weather, climate and catastrophe insight*, Aon, 2023; *2024 weather, climate and catastrophe insight*, Aon, 2024.
[13] Defined as cyber premiums divided by cybercrime costs.
[14] Steve Morgan, "Cybercrime to cost the world $10.5 trillion annually by 2025," *Cybercrime Magazine*, November 13, 2020; "What you need to know about the cyber insurance market," Swiss Re, August 2023.

Customers are also navigating rising insurance costs by assuming more risk. Periods of higher rates typically see growth in captives (a form of self-insurance in which the insurer is owned by the insured party), and there has been a steady increase in usage globally: surveys suggest captive usage hit 25 percent in 2023, up from 17 percent in 2021.[15] The global market value is projected to reach $250 billion by 2028.[16] By using captives, which can have expense ratios of as low as 1 to 5 percent,[17] commercial customers avoid the higher cost burden of 20 to 40 percent expense ratios underpinning the premiums of primary insurers, and gain direct access to the reinsurance market through the captive.

In addition, many customers—particularly small and medium-size enterprises—are simply declining coverage on some commercial risks to manage their costs. In the United Kingdom, for example, more than half of small businesses stopped buying at least one insurance product in 2022,[18] while 75 percent of small businesses in the United States are estimated to have insufficient insurance.[19]

Narrowing these protection gaps represents a key growth opportunity for insurers and requires creative solutions that overcome barriers associated with the higher cost of protection (for example, through product flexibility and innovation or customization of coverages). And it points to a deeper long-term need for insurers to maintain and increase their relevance in a changing world by finding innovative, cost-effective ways to meet the needs of customers across rate cycles, while being intentional about where and how they grow to ensure that new growth is profitable.

Profitability can be elusive

Across commercial P&C, specialty lines are the only ones to have delivered consistent and meaningful levels of profitability globally during the current cycle. The combined ratio for specialty lines has consistently remained below 100, while ratios for other lines, such as accident, property, and motor, have typically stayed above that level—indicating they are regularly paying out more than they are receiving in premiums (Exhibit 3).

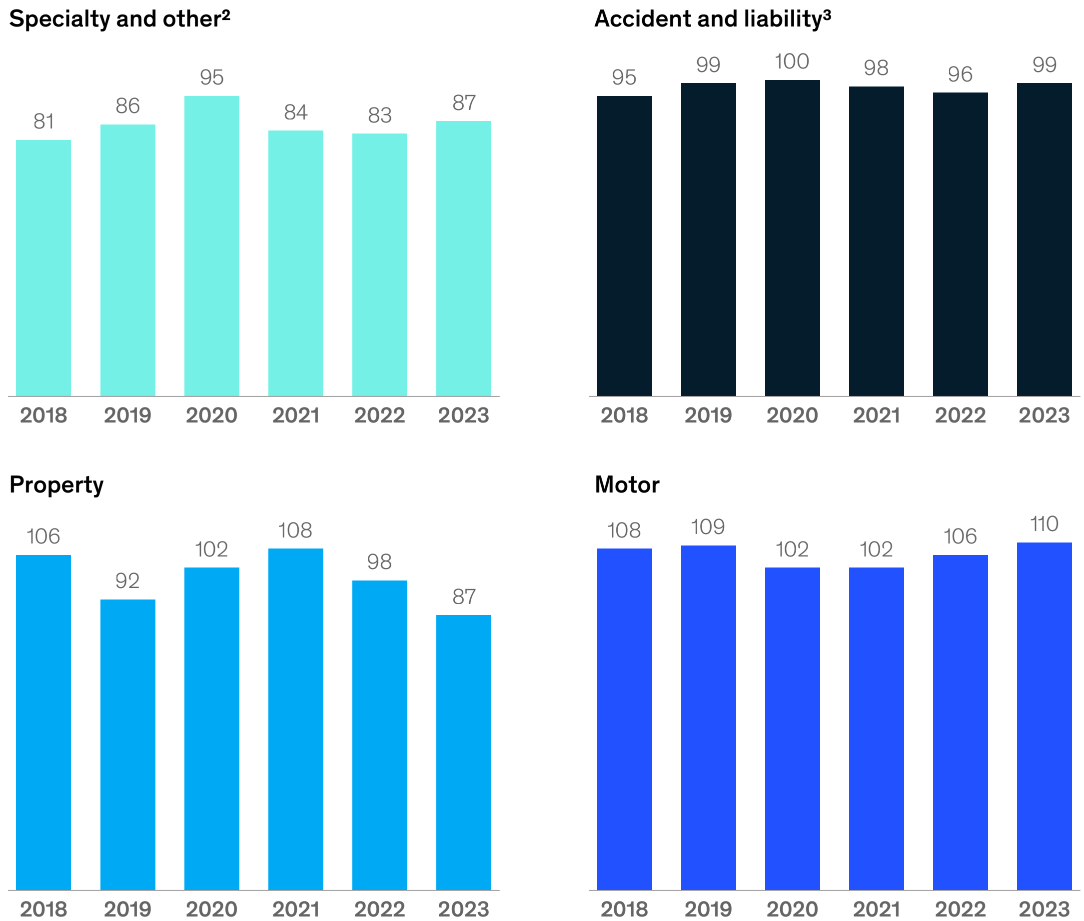
Yet a deeper look at specialty-focused insurers finds even they haven't been able to secure consistent profitability. Net combined ratios among specialized insurers exhibited the highest degree of variability compared with their more diversified peers, raising questions related to the merits of trading variability for profitability.[20]

[15] "Captive insurance: Uptick in use reflects market realities," Aon, June 11, 2024.
[16] Projected captive insurance industry market size from Barry Weissman, "The outlook for insurance captives in 2024," *Risk Management*, November 28, 2023.
[17] Analysis of expense ratios of leading captives in Europe based on Global Insurance Database, AM Best, October 2024.
[18] *2023 manifesto: Managing risk – delivering stability*, British Insurance Brokers' Association, January 2023.
[19] *2023 underinsurance report*, Hiscox, 2023.
[20] McKinsey analysis of combined ratios of nine global specialist carriers (insurers that specialize in certain commercial lines of business), from 2018 to 2023. Based on Global Insurance Database, June 2024; company annual reports.

Exhibit 3

Not all growth has been profitable, with performance diverging among lines of business.

Global primary commercial lines property and casualty net combined operating ratio (COR),
2018–23,[1] %



Note: Global estimates for combined ratio in specialty and other, accident and liability, and property are aggregated using data for Australia, Germany, the US, and the UK. For motor, they are aggregated using Australia, the US, and the UK. UK data excludes the Lloyd's market.
[1]2023 COR estimated using reported data for Australia and preliminary estimates for Germany and the US. UK not included in 2023 estimates.
[2]Includes all other lines (eg, marine, aviation, transport, credit and surety, agriculture, etc).
[3]Includes commercial liability, workers' compensation, and commercial accident policies.
Source: Australian Prudential Regulation Authority; Association of British Insurers; S&P Capital IQ Pro; McKinsey Insurance Database Germany

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2 The challenge: Capturing and sustaining profitable growth

While there has been no clear path to consistent profitability in recent years for specialized insurers or those with diverse lines of business exposure, good performance, when earned, can be persistent. Insurers must now focus on how they capture consistent, *profitable* growth amid the shifting market landscape.

Our analysis of the performance of 25 global commercial P&C insurers during the past decade highlights the challenge. While there is not a strong correlation between growth and profitability, there are clear leaders that are able to sustain differentiated performance over time. When ranked based on net combined operating ratio (COR), most insurers have stayed in the same performance quartile during the past decade: five out of seven insurers in the top quartile (20 percent of the total) remained in the top quartile, only two of 11 middle-performer insurers (8 percent of total) moved to the top, and none from the bottom quartile made it to the top (Exhibit 4).[21]

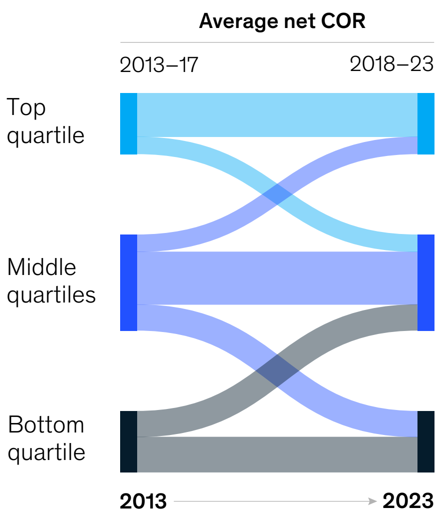
Just 40 percent of an insurer's performance is driven by the lines of business it participates in, while 60 percent of performance is driven by how it operates. This dynamic applies across both soft- and hard-cycle years.

[21] Ibid; analysis tracks performance of 25 global commercial lines insurers over time and segments them into quartiles based on average net COR in two periods: 2013–17 and 2018–23.

Exhibit 4

It is more difficult for a carrier to improve its industry position than to sustain its profitability.

Global commercial carriers' average net combined operating ratio (COR) performance, by quartiles over time[1]



Quartile position 2013–17	Quartile position 2018–23	% of carriers analyzed	Gross written premium (GWP) CAGR, % 2013–17	Gross written premium (GWP) CAGR, % 2018–23
Top	→ Top	20	9	15
	↓ Middle	8	3	6
Middle	↑ Top	8	6	8
	→ Middle	24	4	13
	↓ Bottom	12	7	9
Bottom	↑ Middle	12	–3	5
	→ Bottom	16	4	9

Note: Peer set includes 25 global commercial lines carriers.
[1]For certain carriers, GWP is estimated using GWP/net written premium or GWP/net earned premium peer set average ratios; commercial GWP and net COR for certain players have been estimated for earlier years because dedicated commercial business units were formed post-2017.
Source: AM Best; annual reports

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In addition, not all insurers able to grow did so profitably. Several in the bottom quartile of profitability exhibited relatively high growth, particularly in recent years, perhaps trading profitability for growth. Such insurers may need to rethink their growth strategies to remain viable in the longer term.

How insurers play drives performance more than where they play

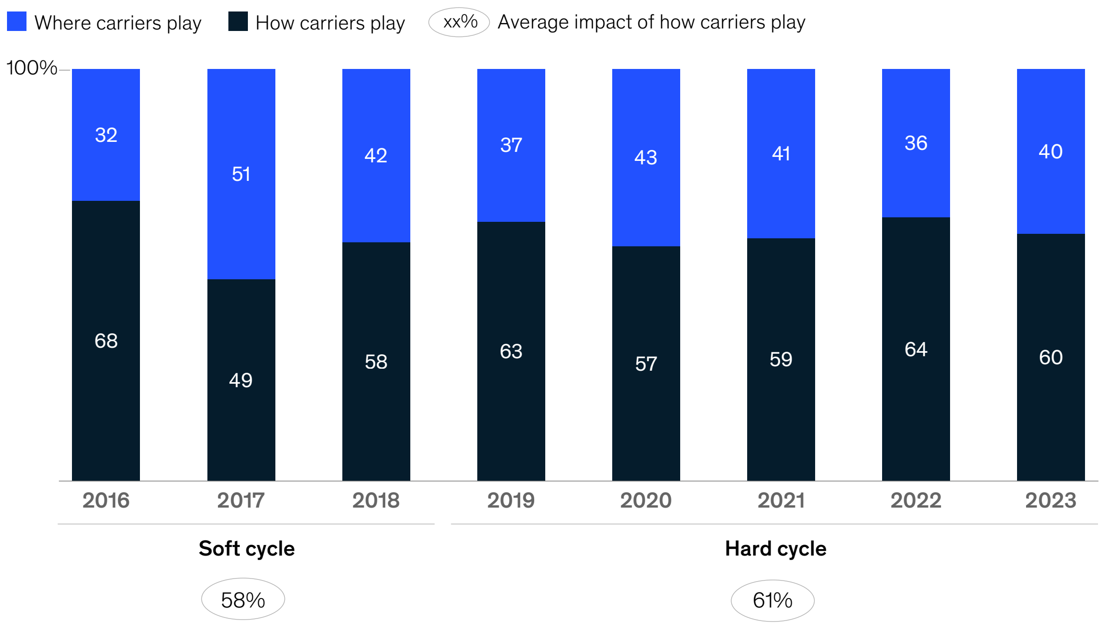
Although *where* insurers operate is important, the majority of their financial performance is driven by *how* they operate. Just 40 percent of an insurer's performance is driven by the lines of business it participates in, while 60 percent of performance is driven by how it operates. This dynamic applies across both soft- and hard-cycle years and applies generally, although factors such as regional differences may lead to exceptions (Exhibit 5).[22] While effective portfolio strategy should not be disregarded, execution matters even more, and insurers should double down on their capabilities in their core lines of business to achieve profitable growth.

[22] Analysis calculates an artificially weighted combined ratio for 24 global commercial lines insurers based on industry business line weights. It uses an industry-weighted business line mix while maintaining each insurer's combined ratio performance in individual business lines. The relative outperformance or underperformance of these artificially weighted combined ratios is then compared to that of the realized combined ratios. This comparison is used to assess the impact of the "how" versus "where" to play decision. Based on Pro Database, S&P Capital IQ, May 2024; Global Insurance Database, June 2024; company annual reports.

Exhibit 5

How carriers play has driven recent performance more than where they play.

Commercial carriers' average net combined operating ratio (COR) performance drivers, average[1] for 24 global commercial lines[2] carriers, 2016–23, %



Note: Due to data availability, the analysis did not consider geography and uses top-level lines of business to define where carriers play.
[1]Based on analysis of a peer set including 24 primary commercial lines carriers, leveraging a mix of global, US, and European data for those carriers.
[2]Lines of business include specialty, property (including flood and earthquake), liability, multiperil, fleet, and workers' compensation.
Source: AM Best; annual reports; S&P Capital IQ Pro

McKinsey & Company

While execution always matters, its contribution varies for different players. How an insurer plays matters more to performance for top performers (about 60 percent of performance relates to execution) than for insurers in the bottom quartile (about 52 percent). This suggests top performers may be focusing on lines of business in which they have already established a "right to win," while bottom performers have a greater opportunity to improve their portfolio choices. Once insurers establish the right portfolio mix in which they have the right to win, sustaining performance requires doubling down on the capabilities that drive strong execution. For those in the bottom performance quartile, both levers can make a meaningful difference.

3 Four key drivers of superior commercial P&C performance

How do top-performing commercial P&C insurers achieve sustained profitable growth and competitive advantage? Our analysis found four areas of distinctiveness drive superior performance: the clarity and focus of their growth strategy, investments in strengthening underwriting operations and driving excellence in risk selection, reduced acquisition costs while navigating a changing distribution landscape, and achieving operational efficiencies across the value chain to manage administration expenses.

Leaders have clear strategies to capture profitable growth

Portfolio management has always been critical to the success of commercial P&C insurers in balancing diversification and placing bets on the lines that are most attractive. Leaders go a step further and have a clear value proposition and risk appetite that are well communicated and understood internally and externally, and make focused investments in capabilities that guide execution, such as specific channels and talent. As a result, leading insurers are twice as likely as lagging peers to have publicly announced clear and targeted growth strategies.[23] This is true regardless of *where* the insurer plays, and hence we see this clarity and focus as more of the *how* equation. Given the market is experiencing broad structural shifts (such as new risks and the entry or exit of players and capacity), insurers are likely to be required to establish even more targeted strategies and value propositions to capture profitable growth where they decide to play.

Insurers must have distinctive capabilities where they choose to compete

It is critical that insurers establish clear growth strategies to ensure they compete where they have a right to win. Some insurers are reinventing their portfolios by decisively placing strategic bets on specialized, niche businesses. For example, cyber insurance has become increasingly available; some insurers are building capabilities to provide coverage for financial liabilities for investment management,[24] while others are creating directors and officers products tailored to specific sectors, such as private equity. These are being done either alone[25] or through partnerships with other players, depending on the right to win.[26]

Some US insurers are investing further in growth in their non-admitted or excess and surplus (E&S) businesses to leverage the greater agility they offer: non-admitted and E&S premiums grew by 20 percent year over year in the United States from 2018 to 2023, with insurers increasingly offering specialized products in the space.[27]

[23] Ibid; analysis tracks performance of 25 global commercial lines insurers over time and segments them into quartiles based on average net COR in two periods: 2013–17 and 2018–23.
[24] "Canopius launches new investment management cover," Canopius, January 17, 2024.
[25] "Beazley launches new private equity liability product for portfolio companies in Singapore," Beazley, April 12, 2023.
[26] "RSA and Q Underwriting launch management liability product," RSA, May 21, 2024.
[27] P&C statutory data from Pro Database, S&P Capital IQ, accessed May 2024.

Models requiring limited underwriting involvement continue to grow

Premiums written through managing general agents (MGAs) by insurers primarily engaged in commercial lines[28] grew by about 18 percent year over year in the United States in 2020–23, compared to about 11 percent growth in total premiums.[29] MGAs have also shown significant growth outside the United States. Cyber insurance has emerged as one of the most commonly cited examples of insurers partnering with MGAs,[30] but MGAs have also helped provide underwriting expertise for many other lines, such as marine cargo.[31]

Furthermore, in the Lloyd's of London market, smart follow[32] syndicates are experiencing growth that far outpaces the market.[33] Yet while growth has been supported by rate hardening, it is becoming clear that the business driven by insurers' lead underwriting capabilities is at risk of shrinking—making this portion of the market increasingly competitive in the years ahead. That's particularly the case if the industry follows the trend of more passive participation (such as through MGAs or smart follow syndicates) seen in asset management, where passive funds overtook active funds in terms of assets for the first time in 2023, just 30 years after beginning to gain popularity.[34]

That's why it is even more important that insurers establish targeted underwriting strategies in areas where they are able to establish distinctive capabilities.[35] For areas where insurers are not able to establish distinctive underwriting capabilities, they can consider playing in the market passively to gain access through more external underwriters—or not playing at all.

Investors want clear growth strategies from insurers

Insurers need to articulate clear growth narratives to investors to give them confidence and ensure they have the requisite access to capital to achieve their growth strategies. Investors can now diversify exposure to various lines of business and markets more easily than ever, and they are looking for insurers to focus on where they have a right to win.

McKinsey has previously noted that traditional sources of capital continue to be challenged.[36] Insurers have had to turn to alternative sources of capital to grow their businesses and must be prepared to do so in the coming years. In fact, alternative sources of capital grew 7 percent in 2023, and total deployed alternative capital surpassed $100 billion for the first time.[37] Insurers have innovated and developed insurance-linked securities such as cyber catastrophe bonds, which have had significant success in the market.[38] And private capital is looking to partner down the value chain to bring new capacity, creating an opportunity for commercial insurers.[39]

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28 Insurers with more than 75 percent of P&C business in commercial lines.
29 Global Insurance Database, June 2024; Pro Database, June 2024.
30 "QBE North America launches new cyber insurance program with Converge," QBE, July 27, 2023.
31 "Great American Insurance Group announces new collaboration with Amwins Program Underwriters," Great American Insurance Group, June 3, 2024.
32 "Smart follow" is a type of algorithmic underwriting using algorithms to determine which risks to insure or "follow."
33 S&P Capital IQ, June 2024.
34 Adam Sabban, "It's official: Passive funds overtake active funds," Morningstar, January 17, 2024.
35 *Global Insurance Report 2023*, February 16, 2023.
36 Ibid.
37 *Insurance-linked securities: Aon Securities Q4 2023 quarterly report*, Aon Securities, 2024.
38 Beth Musselwhite, "Gallagher Re expects more cyber cat bonds in 2024," *Reinsurance News*, February 21, 2024.
39 Jack Willard, "The Fidelis Partnership to lead new Lloyd's Syndicate 3123," *Reinsurance News*, March 28, 2024.

For global public commercial insurers, the share of intrinsic investors (those tending to hold positions in a small number of companies for long periods) in the investor base has been steadily decreasing, falling to 28 percent in 2023 from 41 percent a decade earlier.[40] Public insurers can benefit from discussing clear and targeted growth strategies with market participants. The top criterion for intrinsic investors in the market is whether a company has a sustainable advantage over key competitors.[41] Insurers must have a clear answer to investors on the question of how they play.

Top performers invest in modernizing underwriting

Top-performing insurers exhibit loss ratios an average of six percentage points lower than other insurers and are almost twice as likely to have made significant investments in underwriting operations relative to peers in the bottom performance quartile.[42] A key factor? Embracing technological advancements to hone their underwriting distinctiveness. This is not a new trend, but recent shifts have accelerated the pace and widened the aperture for what is possible while navigating the complexity of legacy systems and processes.

Leading insurers are leveraging a wide range of data sources, generative AI, and more traditional AI and machine learning (ML) to rethink their end-to-end underwriting journeys and build distinctive decision-making capabilities that drive quality and scalability. As a key component of "how you play," significant investment in underwriting capabilities is required to remain competitive in targeted areas where insurers choose to compete.

For global public commercial insurers, the share of intrinsic investors in the investor base has been steadily decreasing, falling to 28 percent in 2023 from 41 percent a decade earlier.

[40] McKinsey analysis based on data from ten global public commercial insurance carriers from S&P Capital IQ. "Intrinsic investors" are defined based on their tendency to hold a small number of securities for long periods. Their select stocks and their portfolios look different from major indexes.
[41] Jay Gelb, Rob McCarthy, Werner Rehm, and Andrey Voronin, "Investors want to hear from companies about the value of sustainability," McKinsey, September 15, 2023.
[42] Analysis tracks performance of 25 global commercial lines insurers over time and segments them into quartiles based on average net COR in two periods: 2013–17 and 2018–23. Based on Global Insurance Database, June 2024; annual reports; market announcements.

Generative AI has wide applicability

Insurers are deploying generative AI in commercial lines to automate algorithmic underwriting,[43] implement chatbots that embed institutional know-how in underwriting workflows,[44] improve the underwriting submission process,[45] and streamline market intelligence to enable more efficient portfolio management.[46] Yet while there has been a flurry of announcements, few initiatives have been scaled—although there is optimism given the industry's newfound speed of change. For example, one insurer announced the launch of a proof of concept within its terrorism business to build capabilities it can later expand: using AI to cleanse data inputs to the model, automatically geocoding locations, and mapping the properties to support underwriters in risk selection and portfolio optimization—and transforming a three-day process into one that takes just seconds.[47] We expect leading insurers will make significant progress this year toward building generative AI (gen AI) expertise across their organizations.

Advancements in gen AI have also reinvigorated the case for traditional AI and ML investments in underwriting capabilities. For example, insurers are using climate data to sharpen risk selection and underwriting decisions.[48] AI has enabled insurers to exploit a wide and varying array of data sources, including tax assessments, satellite imagery, real estate data, and other sources to better enhance risk models in a highly scalable way.[49]

Competition for talent is intensifying

Frontline underwriters remain at the forefront of growth, and competition for quality underwriting talent continues to intensify. Attracting and retaining the best underwriting professionals relative to other players, such as MGAs, hinges on the ability to provide the tools, analytics, and efficient workflows that maximize their productivity and impact. During the past five years, leading MGAs have reported retaining more than 95 percent of their underwriting talent,[50] with early adoption of technology fostering an attractive, cutting-edge environment.[51] Insurers must adapt to compete for talent with such players and can use their distinctive technology tool kits to recruit.

Insurers must navigate a changing distribution landscape

The distribution landscape continues to evolve, and insurers must rethink how they use broad sets of channels such as delegated authorities, compete for profitability with brokers as they seek growth, and harness digital advancements to achieve commercial excellence. Leading insurers have focused on gaining efficiencies in driving down acquisition costs in recent years, decreasing their acquisition expense ratio by two percentage points on average between 2013–17 and 2018–23. By comparison, lagging peers saw their acquisition expense ratios worsen by two percentage points over the same period.[52] This underscores why a focus on commercial excellence is an integral point of differentiation to capture distinctive performance. Yet if the market softens, competition for growth can be expected to increase and there will be a heightened imperative for insurers to think differently about commercial excellence.

[43] "Hiscox and Google Cloud collaborate on AI in lead underwriting for the London Market," Hiscox, December 12, 2023; "Ki enters partnership with Beazley, significantly expanding Ki's digital follow capacity," Ki, March 28, 2024.
[44] *Chubb Limited annual report 2023*, Chubb Limited, 2024.
[45] "Revolutionizing commercial insurance with GenAI," Planck, accessed October 3, 2024.
[46] "Digital risk processing," Cytora, accessed October 3, 2024.
[47] Sam Casey, "Behind the headlines: Hiscox's Kate Markham on AI deployment," Insurance Insider, June 6, 2024.
[48] "How AI could change insurance," Allianz, November 2023.
[49] "Travelers overview: Perform & transform," Travelers, 2023; Jessica Bruno, "Florida Peninsula Insurance Co. to start using AI for roof quality assessments," WPTV, April 30, 2024.
[50] *2023 annual report*, Ryan Specialty, February 2024.
[51] Sebastien Bert, "MGA-insurer partnerships in a highly digitized future," June 12, 2023.
[52] Analysis tracks performance of 25 global commercial lines insurers over time and segments them into quartiles based on average net COR in two periods: 2013–17 and 2018–23. Based on Global Insurance Database, June 2024; annual reports.

Insurer–broker relations will become even more important
As brokers have gained significant importance, they have extracted a substantial share of value from the industry during this five-year hard cycle. Brokers delivered average annual total shareholder returns of approximately 19 percent compared with about 14 percent for insurers.[53] And while top brokers have traditionally gained scale through consolidation,[54] the outlook is mixed: brokerage M&A activity is slowing in North America,[55] although total European brokerage M&A activity accelerated by 33 percent year over year with a record 502 transactions announced in 2023.[56]

Broker relationships will become even more important as insurers seek to meet the imperative for profitable growth within this evolving broker landscape and changing rate environment. Both insurers and brokers should focus on establishing strategic relationships, specifically in the areas of the market that align with their targeted growth strategy.

Insurers should think about the value-added services they provide brokers and invest in those capabilities. The services should improve ease of doing business for strategic partners (for example, API connections and self-serve platforms) and provide marketing and sales support (such as enhanced product training). Compelling broker compensation structures can also provide better alignment in insurer-broker relationships and support insurers in their efforts to build targeted strategies and distinctive capabilities.

Insurers should manage the quality of their distribution networks
Most insurers have significant variability in book performance across their individual agents and brokers, requiring more diligence and performance management to ensure a greater focus on profitable growth. For example, insurers have worked with MGAs to grow premiums significantly in recent years. But even though insurers are adopting more-passive growth strategies in this area, they still need to be selective in how they grow through this channel, especially in softer markets, to avoid diluting rigor in underwriting and product design. For example, a study of the wider P&C industry in the United States found that among 13 insurers operating with an affiliated model that became insolvent between 2017 and 2022, more than 88 percent of direct premiums written were sourced through the affiliated MGA in the year prior to insolvency.[57] Insurers will need to perform greater due diligence in business underwritten by MGAs to ensure the quality of business that is being channeled to them.

Digital connectivity is transforming the purchase of insurance
Digitalization allows for greater speed and simplicity, reducing friction between brokers and underwriters. And increased market participation and visibility stemming from digital trading platforms—which digitally connect brokers and underwriters—may even raise the expectations brokers and clients have for insurers themselves. Trading platforms are expanding across commercial lines to facilitate the transition from today's approach, which relies on emails and documents held in organizational silos, to a future of structured data that digitally connects clients with potential coverage solutions in real time.[58] User experience is at the forefront, with platforms focused on removing pain points and offering a streamlined journey through the placement life cycle.[59] Third-party technology providers are also supporting the digital transition—for example, by equipping brokers and insurers with tools to find and win new business with greater efficiency.[60]

[53] Market Intelligence Database, S&P Global, accessed June 2024; based on analysis of five brokers and 11 commercial lines insurers, weighted based on market cap.
[54] "Insurance investors: Priorities and opportunities," McKinsey, October 30, 2023.
[55] *North American agent & broker 2023, year-end merger & acquisition report*, Optis Partners, January 26, 2024.
[56] *European insurance M&A barometer report 2023*, FTI Consulting, March 2024.
[57] "Rapidly increasing MGA premiums warrant greater oversight," AM Best, May 22, 2024.
[58] "Whitespace platform to support digitisation of end-to-end risk lifecycle for London market risks," Marsh, February 2024.
[59] Luke Gallin, "PPL successfully switches to Next Gen platform," *Reinsurance News*, October 2, 2023.
[60] "Introducing our new AI and machine learning tool: Acturis Predict," Acturis, January 23, 2024.

Leaders manage administration expenses through operational efficiencies

Insurers in the leading performance quartile, on average, maintain administration expense ratios two percentage points lower than their peers. Overall, global insurers improved their administration expense ratios across cycles when comparing the periods from 2013 to 2017 and 2018 to 2023—but that metric does not tell the whole story.

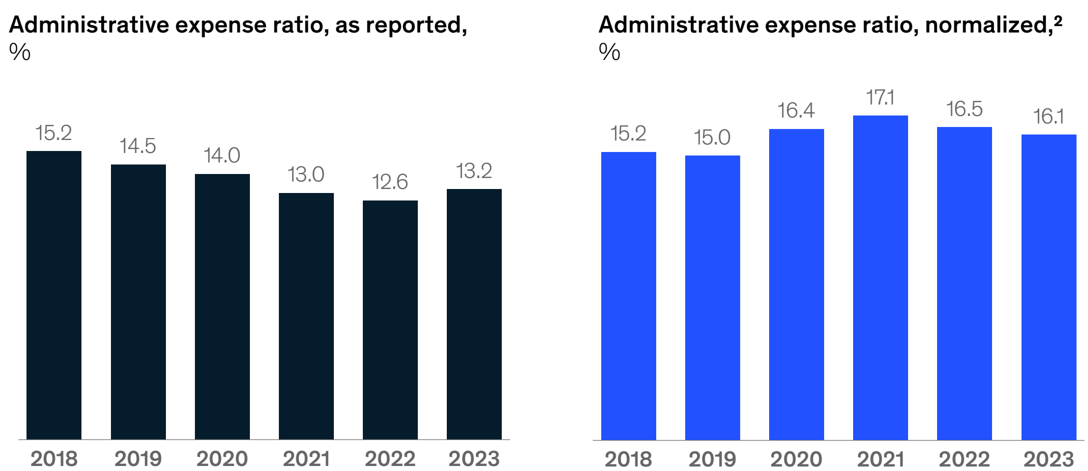
Declines in expense ratio may not be enough

While leading insurers have been more effective at managing administration expense ratios since the start of the hard cycle, such actions may not be enough going forward, especially in a slowing rate environment. In fact, when normalizing for both rate increases and inflation, administration expense ratios in the industry are higher today than they were five years ago (Exhibit 6).[61] To maintain the same ratio of administration expenses in 2023 as in 2018 (adjusted for rate growth), insurers will need to eliminate nearly $10 billion in expenses.[62]

Exhibit 6

Adjusting for rate increases, carriers' administrative expenses have increased as a percentage of premiums during the hard-market cycle.

Commercial lines average administrative expense ratio,[1]
17 global commercial lines carriers' average, 2018–23



[1]Calculated as administrative expenses divided by gross earned premium. Some peer companies excluded due to data availability.
[2]Premium growth adjusted to exclude the impact of rate growth beyond inflation.
Source: AM Best; annual reports; Marsh Global Insurance Market Index; McKinsey Economics Analytics Platform

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[61] The analysis normalizes premiums for 17 global commercial insurance carriers for which admin expense data was readily available, in order to create a volume-based admin expense ratio. Five percent of annualized inflation is stripped out of the expenses on the numerator, and 10 percent of annualized rate change (per Marsh rate index) is stripped out of the premium on the denominator. Source: Global Insurance Database, June 2024; annual reports; McKinsey Economics Analytics Platform; Global Economy Data from Oxford Economics; *Global Insurance Market Index*, 2024.

[62] Calculated as difference in 2023 versus 2018 normalized admin expense ratio times 2023E premiums of $958 billion.

Foundational capabilities must be in place to enable efficiencies

AI has enabled real efficiency improvements across the value chain. For example, by incorporating broker- or customer-facing chatbots into customer service processes, insurers can achieve quicker responses and higher satisfaction. The technology can also streamline processing of broker submissions, improve the speed of delivery to customers, and improve productivity in claims management.[63] For example, gen AI can synthesize large, unstructured files that are key inputs to claims processing, while some commercial insurers are using AI-powered engines to triage claims and assign them to the correct adjusters.[64] More effective collaboration between insurers' claims and legal organizations also enables better litigation management, which is especially relevant in an environment of increased litigation.

Yet before implementing additional gen AI use cases, carriers must be able to create an efficient end-to-end operating model, scale it, and automate it to maximize flexibility as they adapt operations and address future challenges. This will matter even more if rates soften. For example, product-centric operating models may allow for underwriting talent to be moved between product offerings to meet changing market conditions, providing insurers with greater control and scalability. What matters most, though, is that operating models are designed in alignment with the specific, profitable growth strategy of each insurer and steered as adjustments are required.

[63] *Remarkable things happen when people care: 2023 annual report*, Travelers, 2024.
[64] "MS Amlin launches AI-powered claims triage capability," *Reinsurance News*, June 8, 2023.

Conclusion

Commercial P&C insurers face a changing marketplace, challenged by the uncertainty of macroeconomic factors and increased competition from players that are harnessing the power of focused and innovative solutions. Yet insurers can view these changes as opportunities for growth, looking to expand beyond premium increases by closing the widening protection gap and reducing the prevalence of self-insurance among companies.

To be leading players in the future of the industry and capture profitable growth, insurance carriers must focus on establishing distinctive capabilities and double down on how they play in addition to where they play. Doing so requires establishing clear and targeted strategies, modernizing their underwriting capabilities, and optimizing the efficiency of their operations. In an industry in which winners keep winning, inflection points such as the current one present the chance for insurers to separate from the pack.

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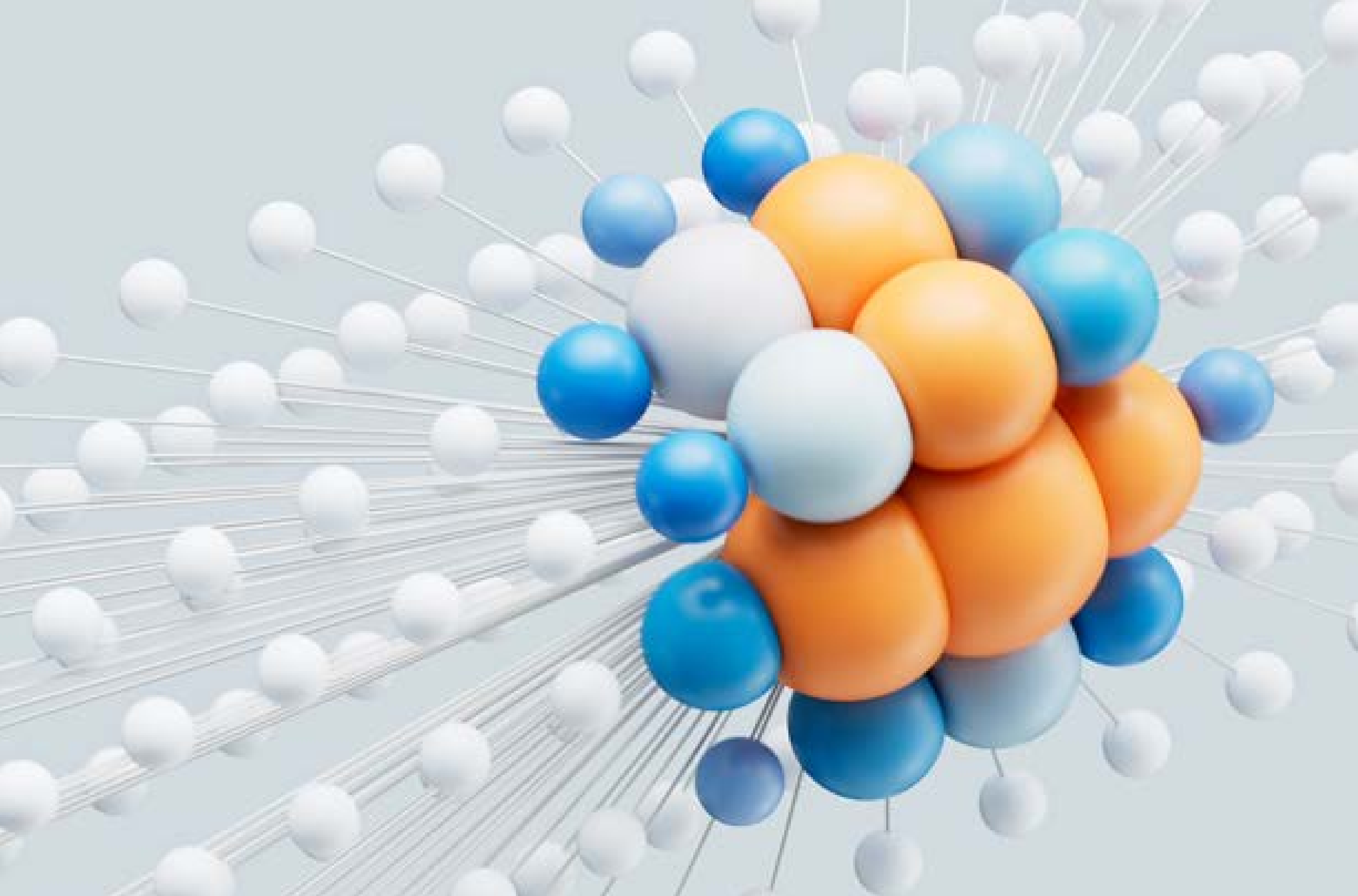
The authors wish to thank Alexa Della Fera, Angat Sandhu, Brad Mendelson, Jacqueline Montgomery, Sylvain Johansson, Rudi Förster, and Varun John Jacob for their contributions to this article.

Global Insurance Report 2025: Growth and relevance in life and beyond

There are bright spots for growth in global life, retirement, and health insurance. But to combat stagnant demand, the industry needs to find new sources of growth beyond its core products.

This report is a collaborative effort by Alex Kimura, Bernhard Kotanko, Henri de Combles de Nayves, Jason Ralph, Pierre-Ignace Bernard, and Ramnath Balasubramanian, with Alex Gestal and Ross Macdonald, representing views from McKinsey's Insurance Practice.



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Introduction

In an industry centered on providing protection against risk, it seems appropriate that the past year was one of unpredictable mixed signals, uncertainty, and surprising upsides for the world's life insurance industry.

Unexpectedly resilient macroeconomic conditions provided tailwinds: global GDP grew by 3.2 percent in real terms[1] in 2023 and continued that growth rate into 2024, inflation last year steadily decreased from 8.7 percent to 6.8 percent,[2] and the MSCI World Index reversed from negative 18 percent to positive 24 percent, reflecting robust global financial performance throughout 2023.[3]

This macroeconomic environment—especially relatively high global interest rates—improved the attractiveness of net-interest-spread products and increased the importance of distinctive asset management as a source of value creation. Yet this positive result was largely concentrated in the United States, where individual annuity sales boomed at a 23 percent CAGR from 2021 to 2023, reaching $385 billion in sales last year,[4] with strong growth continuing into the first half of 2024 as sales rose 19 percent year over year.[5] The United Kingdom has also experienced strong individual annuity growth rates, with year-over-year sales in the first half of 2024 jumping by 50 percent.[6] The success of group annuities, including pension risk transfers, was marked by a year of record transaction value in the United Kingdom and a record number of transactions in the United States as insurance carriers sought scale, given macroeconomic tailwinds to their investment income.[7]

Growth in other products and markets was more muted. Term life is stagnant or shrinking in most major markets in the world. Endowments (including whole life products) are also stagnating—most notably in France, Germany, and Italy, where premiums remained flat from 2021 to 2023. Japan is an exception: it experienced strong growth driven by the postpandemic recovery of the critical face-to-face agency channel, growing demand for simple short-term protection, and continued popularity of dollar-denominated products. Unit-linked policies are struggling against competition from asset management products in the United States and Europe but show encouraging growth in Japan and China. In the United States, a fast-growing voluntary products market is offsetting stagnation in the more traditional large corporate group protection market (Exhibit 1).

Finally, the global health insurance industry was strong in 2023, ending the year with premiums of approximately $1.8 trillion, according to data from McKinsey Global Insurance Pools.[8] While North America accounts for two-thirds of premiums, Europe's share is growing at approximately 3.5 percent annually and is expected to continue, in part because of the region's laws mandating health insurance. Brazil and Mexico are also growing—at 7 to 8 percent a year—as their middle classes continue to emerge.

In short, there are bright pockets of growth across the globe—perhaps more so in the past two years than in the past decade. But overall? Traditional products and major markets are stagnant, and the industry is in search of growth and relevance.

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[1] *World economic outlook*, International Monetary Fund (IMF), April 2024.
[2] Ibid.
[3] MSCI World Index, MSCI, accessed October 2024.
[4] "US annuity sales post another record year in 2023," LIMRA, January 24, 2024.
[5] "US annuity sales set new record in first half of 2024," LIMRA, July 24, 2024.
[6] Ian Smith, "UK annuities on track for best sales in a decade," *Financial Times*, August 16, 2024.
[7] Muna Abdi, "Bulk annuity transactions up by 12 percent," Corporate Adviser, April 30, 2024; "US pension risk transfer premium jumps 53% in fourth quarter 2023," LIMRA, March 28, 2024.
[8] Global health insurance includes medical, which is not traditionally categorized within the life insurance industry for the United States.

Exhibit 1

Carriers must be ready to respond to industry and macroeconomic forces creating diverging growth between products and regions.

Direct premium growth,[1] percentage points (p.p.)

<0 p.p. | 0–4 p.p. | 4–10 p.p. | >10 p.p.

Direct premiums by insurance product mix and major markets,[2] $ billion

	US	UK	Germany	France	Mexico	Japan	China	Brazil
Protection	13	3	5	6	3	58	2	4
Endowment and whole life	132	11	21	84	85	136	150	<1
Annuities (fixed and indexed)[3]	257	7	38	11	<1	17	241	1
Market and unit-linked	114	215	38	66	60	30	2	25
Total individual	517	236	102	166	148	240	395	31
Protection[4]	134	4	16	11	4	37	2	5
Annuities[5]	151	69	N/A	7	4	N/A	N/A	N/A
Total group	285	73	16	18	8	37	2	5
Health	1,200	N/A	58	53	5	69	121	11

Note: Figures may not sum to totals, because of rounding.
[1]Growth in nominal premiums and GDP, 2021–23 (estimated).
[2]2023 (estimated) gross direct domestic premiums written and 2021–23 growth. Based on average fixed exchange rate. US and Japan figures are based on 2023 actuals.
[3]Includes exchanges.
[4]Group life, dental, vision, and supplemental accidental and health insurance for the US; group life insurance only for other countries, given unavailable breakdowns. In-force premiums from "U.S. worksite/voluntary sales and in force, 2021–23," LIMRA.
[5]Includes pension risk transfer growing at 9% CAGR and annuities in defined contribution and defined benefit plans with –7% growth CAGR.
Source: McKinsey Global Insurance Pools; S&P Capital IQ; LIMRA

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1 Embracing a changing landscape

The life and retirement industry has been struggling for relevance, as evidenced by growth that lags behind global GDP and its shrinking importance in capital markets. However, there are structural forces at work that, if successfully harnessed, could help the industry spur consumer demand and drive a resurgence.

‘Silver’ is taking over, and ‘life’ is being redefined

The life insurance market is being reshaped by the aging global “silver” population of people aged 65 or older and the concentration of wealth among Generation X[9] and retirees. The silver population is expected to double to 1.6 billion by 2050 (representing 16 percent of the global population),[10] with “super aged” societies—in which more than 20 percent of the population is aged 65 or older—already emerging in countries such as Italy and Japan.

This creates a compelling opportunity for insurers to address the growing demand for retirement solutions tailored to an aging population, especially as fraying social safety nets leave gaps in financial stability and retirement security. With respect to government-provided, employer-based, and individual pension savings in eight major markets alone, there was an estimated $106 trillion retirement savings gap in 2022, expected to grow to $483 trillion by 2050.[11]

At the same time, changing social norms and ways of living—such as fewer marriages, lower fertility rates, and more dual-income households—are challenging the traditional life insurance model. For example, life insurance penetration in the United States has dropped to roughly half of the population,[12] and the number of policies in force is down roughly 13 percent since 2011.[13] Life insurers will be expected to offer more flexible policies that cater to nontraditional family structures and are part of integrated financial planning as the value propositions of pure protection or endowments (including whole life) erodes.

Customer experience at the forefront

As consumers increasingly interact with digitally native service providers across virtually all facets of their lives, customer experience has become a critical differentiator for life insurers—allowing best performers to deepen customer relationships and drive operational efficiency. Our research shows that moving from the bottom quartile to the top in customer experience can result in up to a 30 percent increase in the rate of winning new business and a 20 to 30 percent reduction in policy cancellations. From 2017 to 2022, insurers making that move delivered an increase of more than 20 percentage points in cumulative return to shareholders.[14] In Asia, several insurers have begun expanding into integrated services, betting these “one stop” digital applications will increase the traditionally low number of touchpoints life insurers have with their

9 Generation X is defined as people born from the early 1960s to 1980.
10 “The world’s oldest populations,” World Economic Forum, February 22, 2023.
11 Robert Turnbull, “APAC life market to see increasing demand for financial stability,” Swiss Re, April 10, 2024. The eight markets are Australia, Canada, China, India, Japan, the Netherlands, the United Kingdom, and the United States.
12 “2023 Life insurance fact sheet,” LIMRA, 2023.
13 S&P Capital IQ PRO, accessed August 2024.
14 McKinsey surveys (2022 and 2023) and North America Customer Experience Life Insurance Survey (2023), n = 4,107; North America Customer Experience Life & Annuities Survey (2022), n = 3,519; S&P Capital IQ.

customers. It is no surprise that China is leading innovation, given almost one in five Chinese consumers prefers to engage digitally across the life insurance value chain.[15]

Yet globally, life insurance still trails in digital capabilities and customer service, resulting in worse outcomes. Leading financial-services providers outside of insurance, such as banks, achieve customer satisfaction scores three and five times higher than those of median life and annuity players, respectively.[16] While not all life insurance consumers prefer digital services, recent trends indicate a narrowing gap between preferences for in-person and online interactions. Insurers have an opportunity to invest in digital capabilities to enhance customer service, streamline processes, and provide personalized experiences. To do this, insurance carriers must find new ways to attract tech talent, overcome the typically high cost to modernize legacy systems, and address the inherently lower-engagement nature of life insurance.

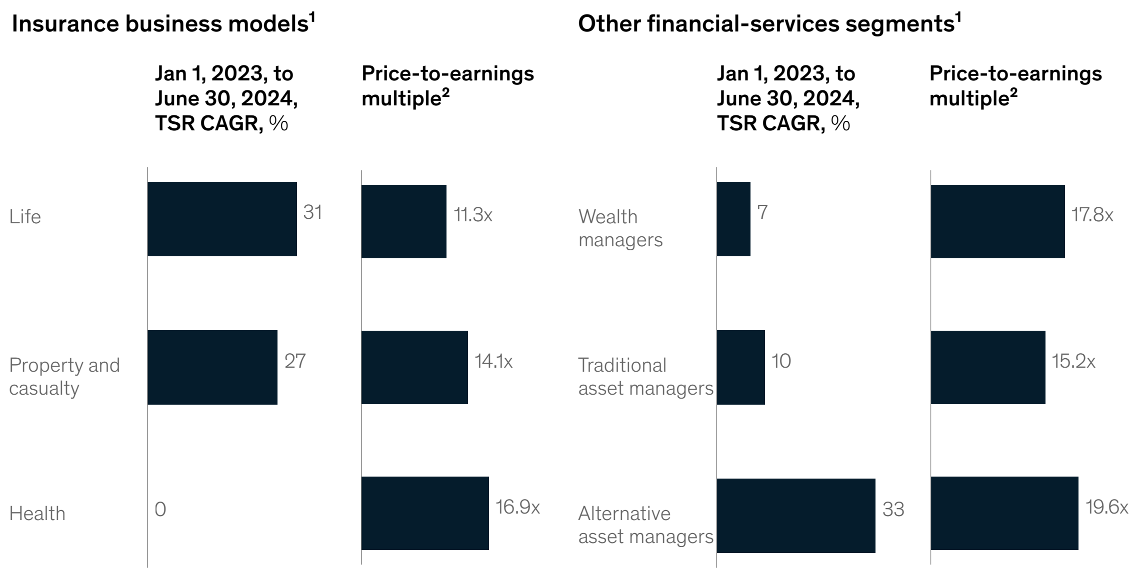
Continued divergence between public and private market perceptions

Publicly listed insurers experienced better results in 2023 than in previous years but continue to lose relevance and lag behind financial-services peers as investors focus on cash and capital return (Exhibit 2).

Exhibit 2

Life insurers trade at a discount relative to other financial-services segments.

Market cap weighted TSR and price-to-earnings multiples for financial services



[1]Based on global top 20 insurers for life, property and casualty, and traditional asset managers; top 14 for wealth managers; top 6 for alternative asset managers; and top 5 for health.
[2]Previous-quarter average share price divided by 1-year forward earnings per share.
Source: Capital markets data sourced from S&P Capital IQ Pro; McKinsey analysis

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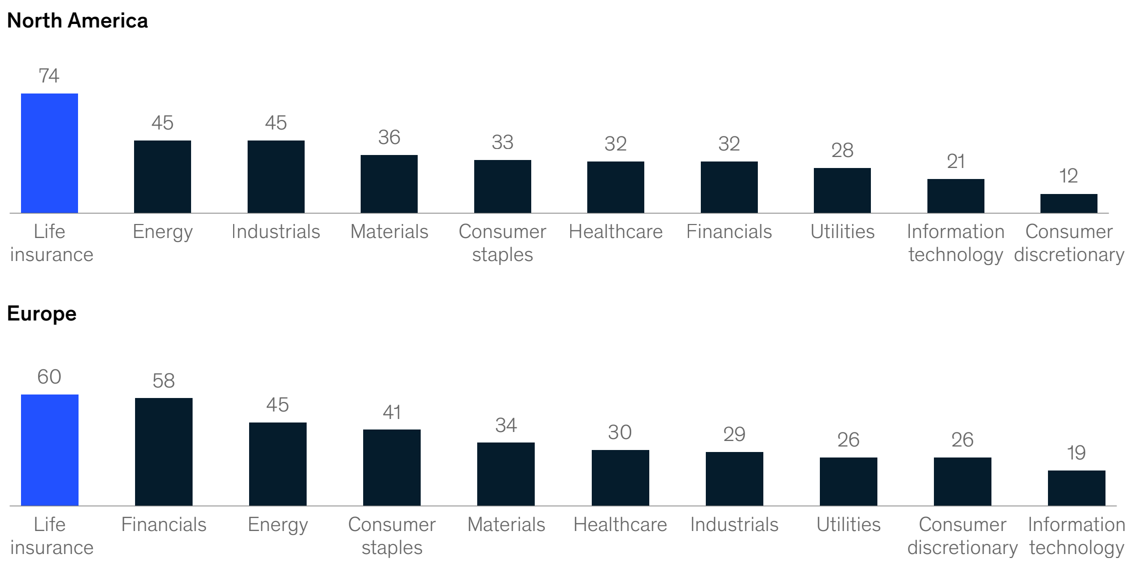
[15] McKinsey Asia Personal Financial Survey (2021), n = 2,038.
[16] NA Customer Experience Life & Annuities Survey (2022), n = 3,519.

The skepticism of public markets contrasts with the relative optimism of private capital, which has infused more than $30 billion[17] of fresh capital into the industry over the past decade versus more than $430 billion returned to shareholders by public insurers in North America and Europe (Exhibit 3).[18] A favorable interest rate environment and some refocusing on growth are helping public investor perception, but a lack of transparency and understandability, and the time lag for growth initiatives, put public life insurers at a disadvantage to other sectors of the economy—a reality observable in life insurance's position at the bottom of price-earnings multiple tables. Even in Asia, the valuation advantage insurers have historically enjoyed has begun to erode (Exhibit 4).

Exhibit 3

In North America and Europe, life insurers return significantly more capital through dividends and buybacks than other sectors.

Cumulative capital return as a share of current market cap, by sector, 2013–23, %



Source: S&P Global Market Intelligence

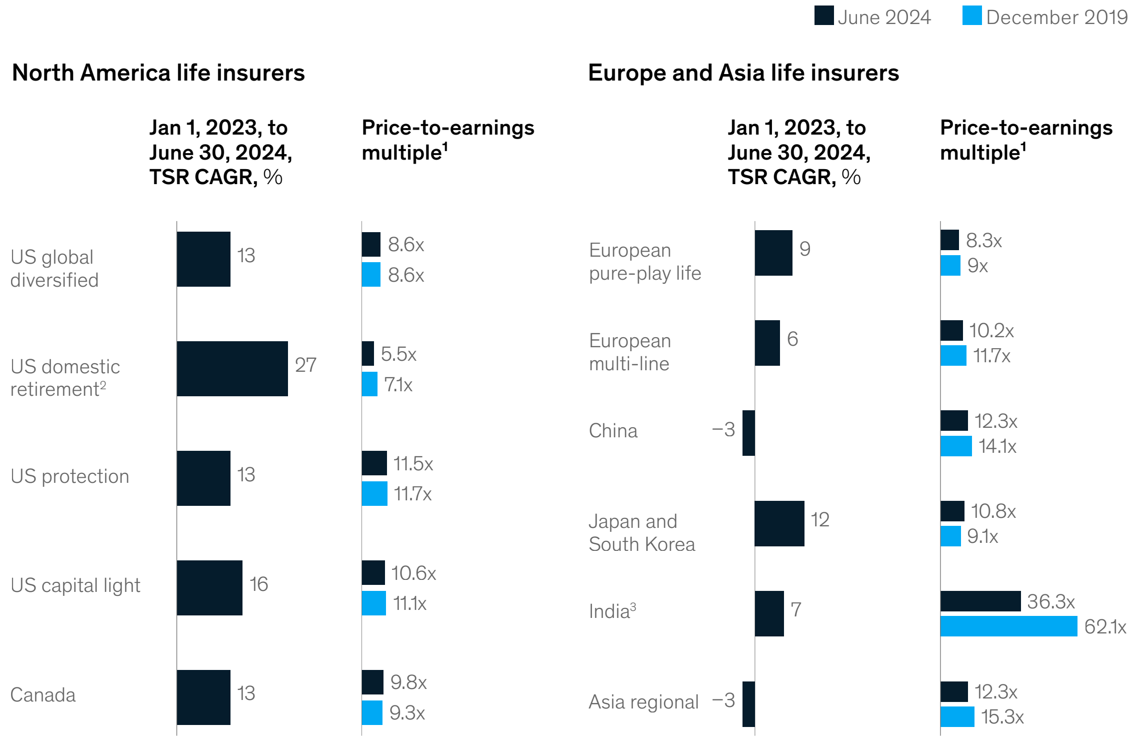
McKinsey & Company

[17] Not including capital generated organically through earnings.
[18] S&P Capital IQ PRO, accessed May 2024; McKinsey analysis.

Exhibit 4

US life insurers have largely maintained their valuations, whereas European and Asian insurers have seen declines.

Market cap weighted TSR and price-to-earnings multiples for regional life insurers



[1]Previous-quarter average share price divided by 1-year forward earnings per share.
[2]Excludes Corebridge Financial and Jackson in December 2019 because they were not yet separate public entities.
[3]Excludes Life Insurance Corporation of India (LIC) because it went public in 2022, the sole driver of significant reduction in overall price-to-earnings ratio for India because LIC was valued lower than private sector companies.
Source: Capital markets data sourced from S&P Capital IQ Pro; McKinsey analysis

McKinsey & Company

Private capital continues to grow in relevance. Insurers backed by private capital—such as those owned by private equity firms—have completed more than $800 billion worth of life and annuity transactions globally since 2012[19] and now account for 13 percent[20] of general account assets in the United States and roughly 35 percent of fixed and fixed-indexed annuity sales.[21] Elsewhere, private capital is flowing to the $200 billion of reserves in the UK bulk-purchase-annuity market and, via private-capital-backed reinsurance solutions, to the $600 billion in reserves of whole-life and fixed annuities in Japan. Private capital–backed insurers are making distinct choices on risk appetite and asset allocation (for example, higher allocation to illiquid and private assets) while leveraging the sophisticated capabilities of their private capital parents to access private assets. As we discuss in the next section, traditional insurers are increasingly following suit.

[19] Ibid.
[20] McKinsey analysis and insurance regulatory data sourced from S&P Capital IQ and AM Best.
[21] McKinsey analysis of regulatory data sourced from AM Best, LIMRA Databank. Includes double counting of deals (when one private capital firm buys life or annuity liabilities from another private capital firm, the transaction is counted twice).

At the same time, mutuals continue to prosper and gain share in several markets. In the United States, where mutuals account for about 50 percent of capital surplus, they have grown their share of individual life sales to 55 percent, maintained their greater than 30 percent share of the fixed and fixed-indexed annuities market from 2021 to 2023, and diversified their businesses by making strong inroads into wealth and asset management.[22] Similarly, mutuals in Japan and Europe continue to hold a strong position, with 30 percent and 33 percent[23] of total industry premiums, respectively.

[22] Regulatory data on As-Was basis sourced from AM Best; McKinsey analysis.
[23] European market is for 2022 and presented in *European mutual market share 2023*, International Cooperative and Mutual Insurance Federation, 2023; Japanese market is for 2023 and from Statistics of Life Insurance Business in Japan and individual company filings.

2 Avenues of growth and value creation beyond 'traditional' life insurance

Insurance carriers face a dual challenge: making a step change in their ability to create value while meeting the evolving needs of consumers and society. The response demands going beyond traditional life insurance, with four immediate axes for growth: regaining relevance and winning in retirement, moving toward integrated wealth solutions, finding new avenues to serve customers and advisers, and expanding into asset management.

Regain relevance and win in retirement

For many years, developed countries have been experiencing aging populations, fraying social safety nets, and rising healthcare costs. However, the conditions are now in place for a renewed effort from life insurance carriers to meet retirement needs and regain relevance.

First, higher interest rates over the past two years and recent macroeconomic uncertainty have renewed the fundamental product value proposition for a new cohort of pre-retirees and retirees. Their advisers, many for the first time in their careers, are acknowledging and embracing the role of protection and endowment products in retirement portfolios alongside competing solutions.

Second, demographics are shifting much of the retirement asset pool into its decumulation phase, particularly across the major insurance markets. This is a timely and powerful opportunity for life insurers to regain relevance by providing a stable, secure retirement income for life, holding on to accumulated assets that would have been ceded to asset and wealth managers during the past three decades.

The market bifurcated in recent years between capital-light and capital-heavy models, with many insurers making strategic commitments to one or the other in the context of low interest rates and challenged returns. With long-term interest rate expectations shifting and policy makers adjusting their stance on certain products, life insurers globally have an opportunity to accelerate growth by building innovative decumulation solutions that, for example, incorporate guaranteed income, market upside, and an element of downside protection. This will not mean just repeating strategies from the previous era of higher interest rates two decades ago; successful strategies now will recognize the ways in which the industry has changed and look for opportunities for innovation, while planning for future uncertainty.

For instance, in the United States, access to qualified retirement savings is expanding, and more insurers, partnering with asset managers, are embedding annuities in more traditional retirement products such as target-date funds (TDFs), which are a particularly relevant opportunity for life insurers. Net flows into TDFs are forecast to grow more in percentage and absolute terms than any other in-plan asset class. Meaningful access to this $3.2 trillion asset pool[24] is an attractive source of growth; while at least ten TDFs have

[24] McKinsey Performance Lens Global Growth Cube.

incorporated embedded annuities since 2020, worth around $50 billion,[25] that remains less than 2 percent of the total TDF market—suggesting there is ample headroom for insurers to make further inroads. For instance, annuities could transition to products that are bought by "default," not sold—such as TDFs—which requires partnerships with asset managers, product innovation to resolve challenges around portability, and operational improvements to handle large numbers of new contract holders. The United States is seeing an increased number of product enhancements and new-product launches as firms seek to capitalize on attractive annuity markets and opportunities opened up by the 2020 SECURE Act. Major players announced nearly 30 product launches or notable product enhancements in the annuity and variable universal life market in 2022–23, compared with less than half a dozen in 2019.[26]

In the United Kingdom, where capital-light retirement assets are forecast to grow at 8 percent annually during the next decade,[27] winners will build strong relationships with end customers during the accumulation phase, even when intermediated by an employer or corporate pension trustee. This should increase their ability to support customers holistically across their financial needs and to retain assets through decumulation with a broader set of capabilities, including annuities.

In Asia, insurance carriers can introduce products that better address retirement financial needs. This means partnering with asset managers for better returns and injecting more flexibility into product design, from varied payment structures to payout terms, retirement ages, and lower fees. In emerging markets in Asia, with younger populations, insurers are taking inspiration from other markets by introducing new asset accumulation products such as target-date funds and alternative asset funds; meanwhile, there may be opportunity among the growing number of homeowners for reverse mortgage products for decumulation needs. Such innovations will be a step into the unknown for some in Asia, meaning investment is required in risk management and asset and liability management capabilities. Insurance carriers will also need to evolve their risk appetites to build the retirement propositions demanded, invest in education and training of agents, and create compelling incentives to drive growth.

Move toward integrated wealth and health solutions

The line between life and wealth solutions has become increasingly blurred as customer preferences evolve across demographics. Modern consumers actively seek advisers capable of addressing all of their financial needs, which involves understanding and addressing customers better through greater personalization and delivering on a holistic set of needs in an integrated experience.

In Europe, life products have long been integrated into wealth-focused distribution channels; insurers are now recognizing the opportunity to expand from single-product manufacturers to a comprehensive suite of financial services, directly offering high-net-worth individuals traditional insurance products with banking services. By integrating banking capabilities, they can offer personalized wealth management, investment opportunities, and bespoke financial solutions that cater to the complex needs of clients.

In the United States, both advisers and insurers are recognizing the opportunity to better serve clients through holistic financial plans, in turn capturing diversified recurring revenue streams from wealth management products and distribution. A growing focus on fee-only and fiduciary advisory models is accelerating the need for insurers to provide their advisers and customers with a full suite of financial products. Increasingly, "wealth only" or "life only" advisers are unable to meet the full needs of clients: roughly 80 percent of insurance agents now offer some form of financial planning advice compared with

[25] Jason Kephart and Samantha Lamas, "Target-date funds and annuities … it's complicated," Morningstar, April 9, 2024.
[26] Primary research using plan adviser data.
[27] McKinsey UK Distribution Model, 2024.

about 60 percent in 2020. As a result, wealth products almost doubled as a proportion of their books from about 18 percent in 2020 to 33 percent in 2022.[28]

In Asia's wealth hubs, such as Singapore and Hong Kong, we see a convergence across wealth, life, and even health services. Some insurance carriers have launched "wealth and health centers," while others are creating programs to integrate health, wealth, and estate planning for individuals with high and ultrahigh net worth. Customers want more holistic financial advice, which is creating opportunities for insurers to meaningfully serve wealth needs. This requires insurers to be thoughtful about both product innovation and their capabilities to deliver these products, with a particular reliance on strong investment management capabilities.

In this context, it is crucial for insurers to clearly define and position the value proposition of life insurance products versus other financial instruments such as mutual funds and exchange-traded funds (ETFs), especially when considering the benefits products such as annuities provide in situations of wealth transfer, which will be a significant theme in the coming decades. By embracing the synergies between life insurance and wealth management, insurers can offer a holistic approach to financial planning, meeting evolving client needs and ensuring sustained growth and competitiveness in a dynamic market.

In addition to underpinning financial security into old age, the industry must also decide the extent of its role in supporting quality of life. While average life expectancy has increased by almost 20 years since 1960, the proportion of life spent in poor or moderate health (around 50 percent) has not changed, creating a pressing need for every industry to recognize its fundamental relevance to health and invest in bold, disruptive strategies.[29] The life insurance industry is uniquely suited to enter health adjacencies, an emerging trend in Asia and the United States, through which some insurers are partnering with or acquiring healthcare and senior-care providers to address rising costs of longevity and care. Others are investing in wellness solutions to improve the long-term health of contract holders and reduce the need for care. Both represent a shift from "income protection" to "retirement protection" and a shift from single-channel, infrequent customer engagement to engaging with customers in new and different ways. Both also require big bets in capabilities and markets that life insurance carriers have not traditionally operated in.

Find new avenues in which to serve customers and advisers

The declining penetration of life insurance, contrasted with its increased attractiveness, suggests there is an opportunity for insurance carriers to tell the story of protection to more consumers. This is especially true given that advisers are aging and spending increasing amounts of time advising on other products. Insurance carriers have been exploring differentiated access to customers through their adjacent businesses, such as worksite, and through data- and digital-augmented distribution that lowers advisers' cost to serve their customers.

In the United States, the broadening of intermediaries in the employee benefits ecosystem (such as professional employer organizations, benefits administrators, and human-capital managers) is moving insurance carriers further away from end customers, but a growing demand for voluntary products is blurring the lines, creating a section of the market that is increasingly focused on individuals. This growing demand is driven by consumers' desire for choice and employers' desire to shift costs to employees. In-force premiums of voluntary supplemental health products such as accident, hospital indemnity, critical illness, and cancer grew at a 6.5 percent CAGR between 2021 and 2023, nearly 1.5 times the growth rate of the rest of the group protection market.[30] Sustaining this growth requires focused micromarket business

[28] McKinsey Agent Insight Survey, 2020 (n = 540 for nature of advice and n = 596 for product mix) and 2022 (n = 444 for nature of advice and n = 468 for product mix).
[29] *Adding years to life and life to years*, McKinsey Health Institute, March 29, 2022.
[30] "U.S. worksite/voluntary sales and in force, 2021–23," LIMRA.

development to target receptive brokers and employers, and then, to drive enrollment, mutually beneficial broker incentive structures, strong digital infrastructure, and a customer experience focused on education about these products, which are typically not well understood. Targeting small and midsize employers of fewer than 1,000 employees—an attractive strategy, given that overall market growth rates are almost double those of employers with 5,000 or more employees—will require further capabilities to cater to such organizations.

In addition, as lines blur within the benefits ecosystem and between group and individual channels, multiline insurers are experimenting with ways to drive employee-level outreach and engage employees with a broader product portfolio, subject to local regulatory restrictions. In particular, some insurers see this channel as a cost-effective way to access middle-market customers who are harder to reach through the traditional agency channel. While nascent and currently at the margin (for example, pet insurance and personal cyber coverage), these trending products are also gaining traction in Asia, Mexico, and the United Kingdom. For instance, UK workplace pension providers are exploring ways to drive end-customer engagement and create “retail” relationships, starting with offering worksite financial education.

Successful implementation requires a meaningful shift in capabilities, given the transition from highly intermediated business-to-business-to-consumer relationships to direct consumer engagement. Winners in this space will be those that solve the problem of high customer acquisition costs and low margins. Digitally enabled distribution has been accelerating as a way to improve the customer (and adviser) experience and decrease the cost to serve, potentially offering another route to unlocking the middle market. Insurance carriers have been investing in digital platforms that support remote advice, use AI for personalized recommendations, and generate predictive analytics for advisers. Such platforms also integrate APIs with distribution partners to streamline interactions and improve efficiency and customer satisfaction. Developing these platforms and the digital infrastructure to connect across the ecosystem will enable life insurers to better serve their customers, drive product adoption, and ensure long-term success.

Activate the flywheel across insurance, asset management, and capital

As life insurance and asset management converge, value creation is driven by successful implementation of a “flywheel” approach. The flywheel consists of three components: issuance of insurance policies and annuities at scale, differentiated investment management, and capital management.

The reward for winning in annuity origination at scale is permanent capital. Issuing annuities at scale requires insurers to respond quickly to changing market conditions, whether the customer is an individual, a corporation, or an institution. Best-in-class players will identify asset opportunities and almost immediately adjust their annuity pricing to distributors as a response. Naturally, scale also requires a deep and wide presence across geographies and distribution channels. This includes serious consideration of both the individual and institutional market, with the latter continuing to see ever-increasing, record-breaking deal flows in the United States and the United Kingdom, in particular.

Differentiated investment management requires insurers to make strategic choices on risk appetite and asset allocation, enabled by capabilities to access higher-yielding assets with appropriate risk/return considerations. For the best performers, this has meant building platforms for owning real assets and issuing loans directly to borrowers. In the United States, insurers and other nonbanks are increasingly participating in the space, having issued about 50 percent of commercial real estate loans in 2022.[31] In major endowments markets, such as France, Germany, and Italy, allocations to mortgages, loans, and alternative funds have doubled in the past six years to 12 percent.[32] Given long-dated liabilities and opportunities for excess spread, there is excitement in the $40 trillion private credit market.[33] Building such capabilities will also reposition the industry in its historical role of pivotal lender to ambitious economies, especially as banks continue to retreat from long-term lending. Furthermore, such capabilities in these assets have the self-reinforcing effect of allowing the insurer to offer more competitive prices to customers, gaining even more liabilities to fund further investment capabilities.

Capital management requires greater flexibility as liabilities scale and asset composition evolves. With public markets continuing to doubt the sector as a whole, private capital will be critical for insurers seeking to build their flywheel and grow. Attracting such capital will require more than just offering private capital counterparts investment mandates; it will require the traditional insurer to demonstrate the ability to consistently deliver mid- to high-teens returns, which are expected by private investors and would position "insurance" as a stable return asset class. Done successfully, this will not only attract private capital but also help the industry regain the trust and attention of the public markets.

The annuity insurers that are currently beneficiaries of private capital have typically leveraged reinsurance sidecars, which hold liabilities from the insurer and are capitalized by both the insurer and third-party investors (in return for midteens internal rates of return). Last year set a record for such sidecars, with more than $6 billion in capital raised across five vehicles in North America,[34] equivalent to 60 percent of all capital raised via such vehicles since the first life and annuity sidecar launched in 2019, according to McKinsey analysis.

More-sophisticated capital management structures require that insurers build robust frameworks, modeling, and analytics to inform decisions on how capital should be best allocated across a growing number of balance sheet options (onshore, offshore, sidecar, third-party reinsurers, and divestment). Such capability builds are even more important in Asia, where capital management is rapidly evolving and globalizing in response to regulatory shifts and greater emphasis on profitability and cash flow.

Insurers could pursue distinctiveness in all three components, offering a truly integrated flywheel model. This has largely been the approach of players backed by private capital. The next hurdles for such players will be further expansion of loan origination platforms and capabilities, including outside the United States; increased complexity of liabilities (such as long-term-care insurance); and a broader set of external investors to fuel growth. But for many, achieving distinctiveness in all three components may not be the

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[31] McKinsey Global Banking Pools and Federal Reserve Economic Data, accessed July 2023.
[32] "Insurance statistics update for Q1 2023 comes with visual insights into asset allocation," European Insurance and Occupational Pensions Authority, September 4, 2023.
[33] "Leading with private investment-grade credit," Apollo, accessed October 23, 2024.
[34] Steve Evans, "Apollo/Athene get ratings for ACRA 2 sidecars, $4bn+ commitments targeted," Artemis, September 29, 2023; Steve Evans, "Global Atlantic raises over $2.4bn for second reinsurance sidecar Ivy II," Artemis, July 10, 2023; Steve Evans, "RGA launches life reinsurance sidecar Ruby Re. Hudson Structured a backer," Artemis, December 6, 2023; Steve Evans, "Kuvare sets up $400m life & annuity reinsurance 'sidecar' Kindley Re," Artemis, January 12, 2023; Allison McNeely, "Prudential, Warburg Pincus team up to back new reinsurer," Bloomberg, September 7, 2023.

favorable path. Insurers should identify in which parts of the flywheel they are best positioned and decide whether to double down on these areas. For instance, propriety-distribution-edge specialists can focus on building distinctive customer relationships and creating product development and underwriting capabilities, and then leverage partners for other elements of the flywheel.

Life insurers executing this strategy will open up new opportunities for value creation but also new risks. Potentially higher-yielding assets such as asset-backed securities and real assets come with higher credit and liquidity risk. Regulators and governments are also closely monitoring developments to understand how future shocks would affect life insurers' flywheels and, in turn, other parts of the broader economy. The strategy has also been executed to great effect by several players during a period of low interest rates—as spreads tighten and private capital hurdle rates increase with higher interest rates, the imperative for even greater sophistication in investment and risk management to drive value creation is heightened.

Conclusion

In protecting against uncertainty and helping individuals build wealth, life insurance carriers play a critical role in societies. Although the industry's relevance has declined, there is an opportunity for insurers to harness emerging structural tailwinds and redefine their role beyond life insurance. Harnessing these structural forces and opportunities for value creation demands that insurers build new capabilities and step into new adjacencies, recalibrating their position across financial services, health, and longevity care. Now more than ever, going beyond traditional life insurance is a necessary and exciting growth imperative for the industry.

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The authors wish to thank Angat Sandhu, Archie Sinclair, Diego Mattone, and Jonathan Deakin for their contributions to this report.

McKinsey & Company
November 2024

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